Corporate Guidance for Assessing Water Scopes 1-3 in Value Chains

Concept Note developed by World Resources Institute, SCS Global Services, WWF, and the CEO Water Mandate

Introduction

Overview of the Challenge

Freshwater scarcity, pollution, and ecosystem degradation represent a systemic crisis that threatens business continuity, food security, and social stability worldwide. Unlike greenhouse gases, water challenges are intensely local; a company's impact and risk depend not just on how much water it uses, but where and when it uses it. Research into water footprints has consistently demonstrated the disproportionate materiality of water impacts and dependencies in supply chains, making this an important issue when exploring materiality of impact. Similarly, as companies embrace water in their products and services, and consider extended producer responsibility, customers' so-called "handprint" impacts on water becomes an important issue to address. Accurately accounting for these upstream and downstream water dependencies, impacts, risks, and opportunities (DIROs) is critical for companies and investors, and for tackling water challenges.

Looking at how the climate community addressed such challenges, we see that climate impact accounting has benefited from internationally recognized frameworks such as the WRI/WBCSD Greenhouse Gas Protocol, along with its Corporate Accounting and Reporting Standard and ISO 14064-3[1]. These frameworks have provided organizations across the public and private sectors with standardized nomenclature and concepts to serve as guideposts for scoping, measurement, estimation, and tracking of GHG emissions data for internal and external reporting, assurance, and regulatory purposes.

The need for improvements in accounting for scopes continues to grow for water. Recent efforts in the corporate water stewardship landscape, such as replenishment, have largely focused on "balancing" direct operational water use, while largely ignoring indirect water use, including within the supply chain. However, the scope of what is included in such balancing equations is not standardized, resulting in an inability to compare efforts, and large discrepancies between corporate actors.

[1] ISO 14064-3: 2019 Greenhouse gases – Part 3: Specifications with guidance for the verification and validation of greenhouse gas statements

Likewise, voluntary initiatives like the Science Based Targets Network (SBTN), the Taskforce on Nature-Related Financial Disclosures (TNFD) and the European Union's Corporate Sustainability Reporting Directive (CSRD) demonstrate an increased expectation that companies consider their value chain for reporting, risk assessments and target-setting for long-term procurement and assurance purposes. Yet, even within these initiatives, nomenclature and definitions vary, for example the understanding of what constitutes blue water, green water, grey water, black water, etc. Again, there is little consistency across these initiatives when it comes to accounting for the scope of water reporting, indicating an unmet need for stronger guidance.

Opportunity

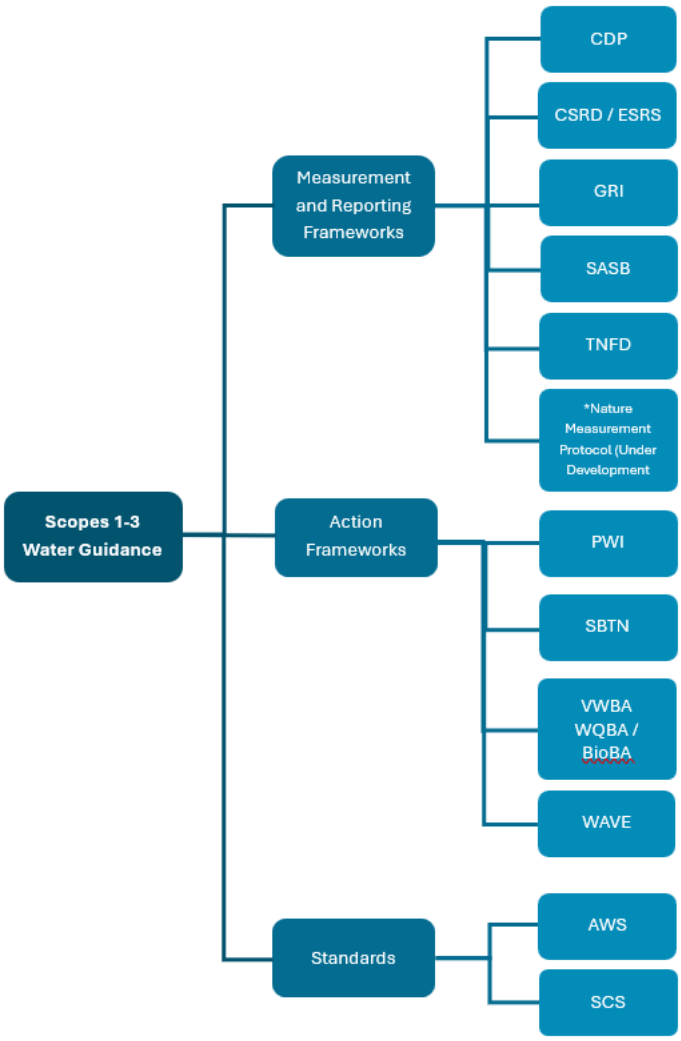
The opportunity is to develop common guidance for assessing and scoping water dependencies, impacts, risks, and opportunities – and identifying priority geographies and sections of the value chain. Such guidance will provide a consistent foundation for water risk assessment (e.g., WRI's Aqueduct, WWF's Risk Filter Suite), corporate disclosure (e.g., CDP, GRI, TNFD) and act as a foundational launch pad for leveraging disclosure data to enact further meaningful action on water stewardship. The guidance will serve as a foundation for a set of "choose your own adventure" pathways (e.g., Reporting Frameworks, Actions Frameworks, and Standards for certifications, target setting, mandatory disclosures, etc.) for level-setting and advancing companies on their water stewardship journeys (see Figure 1).

A common framework can provide a standard foundation upon which corporations, investors, policy makers, technology providers, academic institutions and NGOs can act in an aligned manner in evaluating corporate sustainability efforts. As companies are already starting to plan updates to their water goals beyond 2030, now is a great opportunity to better understand how value chain water fits into corporate water strategies.

As value chain water guidance is built out, some key lessons can be taken from the development and structure of the GHG Protocol, while recognizing that water is infinitely more complex and requires a nuanced approach. The GHG Protocol is the global standard for companies and organizations to measure and manage their greenhouse gas emissions. It categorizes emissions into three scopes based on source, with "Scope 3" encompassing the corporate value chain. Standardized industry guidance for what constitutes the equivalent of Scope 1 (e.g., direct water impacts from company owned or operated operations), Scope 2 (e.g., indirect water impacts associated with electricity use), and notably disentangling Scope 3 (e.g., water impacts associated with value chain activities) for water will establish a clear baseline to benefit the global water community.

Common terminology and clear, consistent expectations for assessing material water DIROs will enable reporting frameworks to be more accessible to companies, which in turn will allow them to spend more resources on action. Furthermore, sustainability teams will have evidence of clear expectations to make the case internally for acting in the value chain and the critical data to support decision-making.

Figure 1. Value chain water guidance as a foundation for disclosure and meaningful action on corporate water stewardship



This Scope 1-3 value-chain guidance has the potential to open more and new, more impactful response options. For example, the SBTN (to which WRI, WWF, and Pacific Institute are partners), uses a mitigation hierarchy framework to avoid, reduce, restore and regenerate, and transform (AR3T Action Framework[2]). To maximize opportunities for avoidance and reduction, companies must consider where in their value chains water-use impacts are the greatest — that is, where they have the most powerful levers to reduce the pressures of those impacts. For food and beverage companies, these levers will largely be found in how and where crops are grown, while for consumer goods companies, they may be in product formulation or end use. Clear accounting will ensure strong, more material efforts, and help to raise the bar within initiatives such as SBTN as it takes hold. We believe that **this guidance will catalyze investment, drive water innovation and create predictable demand to act in the corporate value chain and form a key piece of guidance in the delivery of SDG 6 and the post-2030 goals discussion**.

Proposal

Project Objective and Strategy

Building on the opportunity outlined above, the **objective of this project is to align the corporate water stewardship community, including investors and ESG reporting entities, on a common framework for assessing, prioritizing, acting, and reporting on "scopes" and material water DIROs in the value chain that is broadly applicable across sectors**.

[2] https://sciencebasedtargetsnetwork.org/companies/take-action/act/

The project team will explore the appropriateness of this guidance to align conceptually with existing frameworks already established for addressing environmental impacts in the value chain. Efforts will be made to build upon lessons learned in the carbon accounting community, and other efforts like the Global Circularity Protocol.

Key Activities

- Develop and revise Guidance drafts.
- Identify and invite experts, practitioners and institutions on water footprinting, corporate water stewardship, GHG Protocol, ESG/sustainability reporting & disclosure and related topics to join a working group (WG) to provide expertise, input, direction and feedback throughout the development of the Guidance. The WG will receive a draft document for review and comments, that the team will review and integrate into a new version of the draft. The WG will also repeatedly meet up-to three times over an 13-month period to discuss proposed changes and revise the draft Guidance.
- Engage linked initiative teams (e.g., GHG Protocol, Global Circularity Protocol) to solicit lessons learned and discuss adaptation opportunities and concerns in the water context.
- Finalize draft Guidance and submit for peer review process and joint organizational, co-branded production.
- Develop outreach plan: social media campaigns, webinars, conference sessions, and blogs/articles.
- Launch Corporate Guidance for Assessing Water in the Value Chain
- Promote the Guidance according to the outreach plan. This will include efforts to incorporate Guidance in various initiatives and drive uptake by companies and other stakeholders.

Output

The output of this project will be a guidance document that will provide a common framework for companies to account for their water DIROs across the value chain (e.g., Scopes 1, 2, and 3 or Scope A, B, C, and D). This guidance document will be written with stakeholder input and widely distributed following publication to ensure uptake by the private sector and other relevant stakeholders.

The Guidance will have two sections:

1. How to ***assess and prioritize*** water DIROs in the value chain

   The first section will provide guidance on foundational principles, terminology, and best practices for any corporate water stewardship journey. It will address concepts such as:

   a. Principles for assessing and prioritizing water DIROs in the value chain.

   b. Common language and water inventory metrics (e.g., volume of water withdrawals, nutrient load) to compare and start peer-to-peer conversations, aligned to SDG 6.

   c. Setting definitions and organizational and operational system boundaries for water – akin to Scopes 1, 2, and 3 in the climate context and scopes A, B, C, and D in the circular economy context. This will explicitly aim to unpack scopes across the value chain in greater depth than some of the previous efforts.

   d. Build on existing guidance from mainstream disclosure initiatives to align types of water DIROs that should be accounted for.

   e. Reference to accounting tools that already exist to support water footprint accounting.

   f. Outline relevant "Spheres of Influence"[3] as it applies to water. "Scopes" describe a corporate's water performance while "Spheres" describe its reach of impact.

2. How to ***act and report*** on water DIROs in the value chain

   Part two of the guidance will connect this foundational guidance to existing corporate water stewardship action frameworks, initiatives and foundations, including but not limited to the TNFD, CSRD, the EU's Corporate Sustainability Due Diligence Directive (CSDDD), GRI, CDP, Alliance for Water Stewardship, Volumetric Water Benefit Accounting, SBTN, and CEO Water Mandate's and Water Resilience Coalition's initiative and its Positive Water Impact. For example, part two will build on the assessment and prioritization foundation of part one to catalyze meaningful action in the value chain. It will provide "choose your own adventure" guidance on:

   a. Principles for acting on water in the value chain (e.g., the mitigation hierarchy).

   b. Options for acting on water in the value chain (e.g., meaningful disclosure, credible target setting).

   c. Guidance for credible reporting: how to translate assessed DIROs and actions taken into disclosures that meet the requirements of key frameworks (e.g., TNFD's LEAP approach, CSRD/ESRS, GRI).

   d. Cross walking part one outputs to existing initiatives so companies can leverage the pertinent, catalytic DIRO information gathered in part one to seamlessly take the next step and act (e.g., to disclose to CDP).

[3] https://netzeroclimate.org/oxford-net-zero-and-futerra-launch-new-spheres-of-influence-white-paper-at-climate-week-nyc/

Desired Outcomes

This guidance will provide a number of benefits and outcomes for companies and for nature, including:

- **Increasing efficiency and lowering barriers to entry by streamlining inputs for voluntary initiatives and regulatory reporting.** The GHG Protocol preceded the Science Based Targets initiative, a corporate climate action organization that has developed standards, tools and guidance for companies to effectively reduce their greenhouse gas emissions. Yet SBTN, TNFD and CSRD have emerged without having a foundation akin to the GHG Protocol but applicable to water. Without clear, well-established guidelines, every company must ascertain what to include in their value chain reporting and may even need to calculate materiality differently depending on the regulation or voluntary initiative. This inconsistency and lack of clarity around materiality and disclosures may be a roadblock to proceeding, and for companies that engage, drains critical resources[4] from small sustainability teams, possibly preventing them from focusing on more impactful water stewardship activities.
- **Providing certainty and a common terminology.** Standard guidance for identifying water dependencies, impacts, risks, and opportunities in the value chain will enable investors to assess risks – and therefore make decisions on investment/divestment – in a consistent manner. It will also enable companies to "sing from the same hymn sheet" and partner together more effectively. It will enable companies from all sectors (managing water inventory quality) to standardize language and accurately quantify and communicate water performance using agreed-upon terminology and metrics, thereby creating a foundation for accountability and assurance to meet global, country and state regulations. It will also create a common basis for communicating with stakeholders, customers, suppliers, governments, regulators, standard bodies, non-governmental organizations, development agencies, development banks, multilaterals, academics, and water utilities. Finally, defined scopes for value chain water will provide a clear lexicon for Chief Sustainability Officers, environmental plant managers, legal professionals, marketing teams, and so on.
- **Creating credible benchmarking to "green" procurement practices.** Standardization enables stronger and more credible benchmarking and verification, in turn enabling competition between companies. By measuring impacts in the value chain, companies will uncover new and bigger levers that they can pull to reduce their impacts on water in their supply chain, such as avoiding new sourcing from highly water stressed areas.
- **Improving reputation with stakeholders and shareholders**. Measuring – and acting on – water impacts in the value chain may appease customers, investors and shareholders, thereby improving the business' reputation and sales.
- **Incentivizing collaboration and collective action.** If companies up and down the value chain account for their water DIROs and set meaningful water targets accordingly, there may be a joint incentive to combine forces to cost-effectively reduce companies' collective impacts, collectively meet respective targets, and validate and verify collective action taken to increase transparency and credibility to a wider stakeholder audience.

[4] https://mitsloan.mit.edu/ideas-made-to-matter/scope-3-emissions-top-supply-chain-sustainability-challenges

- **Catalyzing systems change.** Enabling action – and mobilizing investments – in the value chain can catalyze systems change, empowering and incentivizing companies to avoid, reduce, restore, regenerate, and transform water use from cradle to grave and throughout a company's value chain. This holistic approach can future proof supply chains, enhancing resilience and ultimately benefiting companies and their suppliers.
- **Standardizing credit markets.** In the same way that the GHG Protocol helped establish credible carbon markets, this value chain water guidance could do similarly for water credits. While these would not operate quite the same way, standardization would improve their credibility of Monitoring, Reporting and Verification (MRV).

In summary, **this guidance will allow industries to approach water sustainability in a structured, measurable way. Defining scopes for water and agreeing upon a common nomenclature will provide clarity for organizations and lay the foundation for justifying and acting on meaningful water stewardship efforts**.

Timeline

This project should be completed within 18 months of the kick-off date, with an anticipated start date of around mid-2026 once funding is secured:

- Part 1 Development Activities: month 1 through month 10
- Part 2 Development Activities: month 4 through month 13
- Review & publication: month 14 through month 18

Opportunities to Engage

- *Join as a corporate partner:* Corporate partners are invited to support the project team as a sponsor, providing funding and input to the process. At this time, the anticipated level of support and engagement for corporate partners will be broken into 3 tiers, which will receive varying levels of branding and recognition within the project:
    - Tier 1: US $20,000-30,000: acknowledgements in the Guidance publication
    - Tier 2: US $30,000-50,000: acknowledgements in the Guidance publication, logos on outreach materials
    - Tier 3: over US $50,000: acknowledgements in the Guidance publication, logos on outreach materials, dedicated social media mentions, speaking opportunities, and opportunity for dedicated/curated webinars.
- *Join the working group:* Experts on water foot printing, corporate water stewardship, GHG Protocol, and related topics are invited to provide expertise, input, direction and feedback throughout the development of this guidance. Working Group (WG) members will be asked to review drafts of the guidance, provide feedback, and convene quarterly (four times over 12 months). WG members may be consulted individually on an ad-hoc basis. Limited funding may be available if needed to support WG members' time.

Please reach out to Victoria Norman at v.norman@scsstandards.org to express interest and formalize your commitment or fill out the survey: www.surveymonkey.com/r/WaterScopes1-3.

Project Team

World Resources Institute (WRI)

WRI is a global nonprofit organization that works with leaders in government, business and civil society to research, design, and carry out practical solutions that simultaneously improve people's lives and ensure nature can thrive. WRI's Aqueduct and Corporate Water Stewardship teams produce innovative data and analysis tools to help decision-makers understand current and future water risks. We identify ways for decision makers to build water resilience and invest in nature-based solutions. We guide companies on water stewardship initiatives that can reduce financial risk and improve collective water security. From developing Aqueduct to co-authoring Volumetric Water Benefit Accounting and the Greenhouse Gas Protocol, to partnering with the Science Based Target Network and Water Resilience Coalition, WRI is at the forefront of data and thought leadership on corporate water stewardship.

SCS (SCS Global Services & SCS Standards and Assurance Systems)

SCS Global Services is an international leader in third-party environmental and sustainability verification, certification, and auditing for over 40 years. SCS' programs span a cross-section of industries, recognizing achievements in climate mitigation, green building, product manufacturing, food and agriculture, forestry, water stewardship, consumer products, and more. SCS supports organizations in the development and implementation of water stewardship strategies, e.g., setting goals to Science-Based Targets for freshwater, and has extensive experience with reporting frameworks including GRI, SASB, ISSB / IFRS, TNFD, TCFD, ESRS. SCS is a California-chartered Benefit Corporation, reflecting its commitment to socially and environmentally responsible business practices.

SCS Standards and Assurance Systems, an ANSI-accredited standard development body, will leverage its experience facilitating multi-stakeholder consensus-driven technical working groups to support the development of this Guidance document.

World Wildlife Fund (WWF)

WWF is one of the world's largest and most influential environmental organizations, founded in 1961. Its mission is to conserve nature and reduce the most pressing threats to the diversity of life on Earth. WWF works across more than 100 countries, partnering with governments, Indigenous Peoples, businesses, scientists, and communities. WWF aims to ensure that freshwater ecosystems — rivers, lakes, floodplains, wetlands — and their natural flows are protected so that they sustain both people and nature.

CEO Water Mandate (Pacific Institute)

The Mandate is a special initiative established in 2007 by the UN Secretary General and the UN Global Compact (UNGC) in partnership with the Pacific Institute.

The CEO Water Mandate seeks to mobilize a critical mass of business leaders to address global water challenges through corporate water stewardship in partnership with the United Nations, governments, civil society and other stakeholders.