



# OUTLOOK OF EXISTING FINANCIAL / DEVELOPMENT PROGRAMMES

Deliverable D4.3 - November 2023



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## List of acronyms

<b>Acronym</b>	<b>Full title</b>
CF	Cohesion Fund
DNSH	Do no Significant Harm
EAFRD	European Agricultural Fund for Rural Development
EC	European Commission
EEA	European Environment Agency
EIB	European Investment Bank
EIC	European Innovation Council
EIE	European Innovation Ecosystems
EISMEA	European Innovation Council and SMEs Executive Agency
EIT	European Institute of Innovation and Technology
ERDF	European Regional Development Fund
ESA	European Supervisory Authorities
ESIF	European Structural and Investment Funds
ESMA	European Securities and Markets Authority
EU	European Union
FI	Financial Instruments
ICT	Information and Communications Technology
ISO	International Standardization Organization
JTF	Just Transition Fund
MS	Member State
NBS	Nature-Based Solutions
OECD	Organisation for Economic Co-operation and Development
PPP	Public Private Partnerships
R&D	Research and Development
RIA	Research and Innovation Actions
R&D	Research and Development
ROI	Return on Investment
SMEs	Small and medium-sized enterprises
TRL	Technology Readiness Level
Water4All	European Partnership on Water Security for the Planet

## Glossary<sup>1</sup>

**Bank lending:** a form of financing whereby a company borrows funds from a bank and commits to repay them in full over a defined period at a specified interest rate. Bank lending can be presented in different forms and products. However, for the purpose of this report it is being classified into two key areas of financing: financing investment costs and financing working capital.

**Bootstrapping:** a process that involves establishing and building a business with personal savings, earnings from initial sales, and borrowed or invested money from family and friends. This is a way to build a small business without giving up equity or taking out substantial bank loans.

**Business angel:** a private individual, often with a high net worth, and usually with business experience, who directly invests part of their assets in new and growing private businesses. Business angels can invest individually or as part of a syndicate where one angel typically takes the lead role.

**Crowdfunding:** an emerging alternative source of financing. It refers to open calls to the public, generally via the Internet, to finance a project through either a donation, or a monetary contribution in exchange for a reward, product pre-ordering, lending, or investment. Any type of project can launch a crowdfunding campaign: Small and Medium-sized Enterprises (SMEs), artists, innovative start-ups, and social entrepreneurs may all benefit from different forms of crowdfunding. Crowdfunding – this alternative form of fundraising that is collective, participatory, and interactive – is becoming increasingly important. It has the potential to bridge the financing gap many start-ups face and to stimulate entrepreneurship.

**Delegated act:** a legal instrument that is subordinate to an EU regulation or directive. Delegated Acts are used to specify and implement the technical details of legislation, providing more specific rules and guidelines on how a particular law should be applied. These acts are typically used to fill in the gaps or provide further clarification on the provisions of the main legislation. Delegated Acts are a way for the European Commission, which is responsible for proposing and implementing EU legislation, to have the authority to adopt rules or measures that are needed to ensure the effective application of a given regulation or directive. However, these acts are subject to control and scrutiny by the European Parliament and the Council of the European Union, which can object to a Delegated Act within a specified period if they believe it exceeds the Commission's implementing powers or is not in line with the EU's.

**EU Green Bond Standard:** This initiative aims to establish a unified standard for green bonds within the EU. Green bonds are to be used to finance environmentally friendly projects, and a common EU standard under development is expected to increase transparency and trust among investors.

**Grants:** a type of financial assistance typically given by a government or an organisation to a wide range of beneficiaries such as private individuals, companies, public institutions, or non-profit organisations. Grants are typically awarded in support of a specific policy or purpose that serves some larger good. For example, education, research, innovation, culture, social welfare, environment, economic development, or humanitarian aid. Grants assistance is channelled for projects that are characterised by high-risk and/or long-term benefits. Unlike loans, grants do not have to be repaid. Increasingly, grant funding is combined with a variety of other public and private finance (so-called 'blended finance').

**Greenwashing** refers to the practice of making misleading or false claims about the environmental benefits of a product, service, or company in order to present it as more environmentally friendly or

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<sup>1</sup> This glossary will be updated and completed in further deliverables. It provides standard definitions to support dialogue between innovators and investors.

sustainable than it actually is. This deceptive marketing tactic is used to capitalize on the growing consumer demand for eco-friendly and sustainable products and services. In essence, it involves painting a false "green" image to attract environmentally conscious consumers and boost sales.

**Growth capital:** a form of venture capital used to consolidate the company's financial structure for the next stage of its growth, including acquisitions, internationalisation, or the development of new product ranges, for example. Growth capital funds will only invest in companies with a recurring cash flow.

**Private equity:** refers to capital that is directly invested in private companies. Private equity consists of taking minority or majority stakes in private companies (which are not listed on stock exchanges). The two most common types of private equity investment are Growth capital and venture capital.

**Startup:** an independent organization, which is younger than five years and is aimed at creating, improving, and expanding a scalable, innovative, technology-enabled product with high and rapid growth.

**Scaleup:** a company seeing accelerated growth after demonstrating a product or service-market fit, which is looking to grow in market access, revenues, and the number of employees.

**Spinoff:** not a company or an independent organization but a part of an institutional organization, e.g. university, school of economics, or an organization.

**Sustainable Finance Disclosure Regulation (SFDR):** The Sustainable Finance Disclosure Regulation (SFDR) is an EU regulation designed to enhance transparency and disclosure of sustainability-related information within the financial sector. It requires financial market participants, including investment managers, to disclose the environmental, social, and governance (ESG) factors that may impact their investment decision-making processes. The SFDR also establishes specific disclosure obligations for financial products, such as funds and investment portfolios, to inform investors about the sustainability characteristics of those products. By providing this information, the SFDR aims to ensure that investors can make informed decisions and allocate capital to investments that align with their sustainability preferences. It is part of the EU's broader efforts to promote responsible and sustainable financial practices and increase the flow of investments into sustainable activities and projects.

**Taxonomy Regulation:** The Taxonomy Regulation is a regulatory framework within the European Union (EU) that aims to establish a unified and standardized classification system for economic activities that can be considered environmentally sustainable. It provides clear criteria and definitions for what constitutes a "green" or environmentally friendly activity. The Taxonomy Regulation serves as a foundation for sustainable finance by helping investors, companies, and financial institutions identify and promote investments that align with the EU's environmental and sustainability objectives. It contributes to the EU's goal of facilitating sustainable economic growth and transitioning to a more environmentally responsible financial sector by providing clarity on which activities are considered sustainable.

**Technology Readiness Level (TRL):** a method for estimating the maturity of technologies during the acquisition phase of a program. TRLs enable consistent and uniform discussions of technical maturity across different types of technology. TRL is determined during a technology readiness assessment (TRA) that examines program concepts, technology requirements and demonstrated technology capabilities. TRLs are based on a scale from 1 to 9 with 9 being the most mature technology.

**Venture capital:** Venture capital can take several forms, for example from seed funding to scale from a prototype to a product or service, to early-stage funding to help entrepreneurs grow a company and expand working capital, to late-stage to contribute to market expansion. This type of investment is

mainly directed at spinoffs and startups seeking financing, primarily for new, innovative, and disruptive technologies and services.



## Abstract

This deliverable is the third release of a biannual series of regular **updates on the outlook of the financial programmes for water investments**. The outlook is part of the demonstration activities included in **Water4All's Pillar D** aimed at connecting innovators to development/investment programmes to support an enabling environment for a wider and faster implementation of water innovations.

The first deliverable<sup>2</sup> presented a **first overview of perspectives of investments in water development and water innovation** and, after making the balance of the size of the effort required in the current decade, presented an **analysis of the opportunities and challenges these financial perspectives represent for the progressive uptake of innovative solutions**.

The **second deliverable**<sup>3</sup> took stock of the challenges presented in the previous one and continued with mapping the main financial opportunities available for water innovations from idea to market uptake and scale-up. This first presents the connection between financial tools and strategies with water innovation, highlighting key financial methods and opportunities available for innovators to progress through the innovation process, starting from the seed stage and advancing to market uptake and scale-up. Among these opportunities, the second update provides a map of funding opportunities for water-related investment projects, within the framework of the European Union's recovery instrument Next Generation EU (e.g., the Recovery and Resilience Facility, the Programme InvestEU -including the new Strategic Investment Facility, the European Fund for Strategic Investment and Structural Funds -and Cohesion policy programmes).

This **third deliverable** assesses the recent developments in **EU Sustainable Water Financing**, offering a comprehensive framework and strategy to align investor priorities with **EU Green Deal objectives**. The key aims of the **EU Sustainable Finance Agenda** are to incentivize the mobilization of private financial resources, in conjunction with public funds, to support the EU's sustainability objectives, particularly in the sustainable use and protection of water and marine resources. This report provides an overview of the **EU sustainable financing agenda** and its primary initiatives, including the **EU taxonomy**, highlighting its significance in mobilizing financial resources in the water sector, reducing financing for environmentally and socially detrimental activities, and improving transparency and disclosure of sustainability-related information for informed investment decisions.

### ***About Water4All***

**Water4All** is a Research and Innovation Partnership set up in Horizon Europe. It aims at enabling water security for all in the long term by boosting systemic transformations and changes across the water research and innovation pipeline, fostering the matchmaking between problem owners and solution providers. In addition to the launch of calls for research and innovation proposals, **Water4All** offers a portfolio of additional activities including the alignment of water programmes, demonstration projects, international cooperation, the wide transfer and dissemination of activities and results, networking, and capacity building.

The Partnership will provide relevant outcomes for a better understanding of water processes in several scientific fields and it will support European and international policy-oriented initiatives, notably the European Green Deal and the United Nations Sustainable Development Goals. At the date of

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<sup>2</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.1 - November 2022.](#)

<sup>3</sup> [OUTLOOK OF EXISTING FINANCIAL/ DEVELOPMENT PROGRAMMES. Deliverable D4.2 - May 2023.](#)

publication of this deliverable, the consortium counts over 80 partners stemming from national research funding agencies, public authorities including local authorities, research performing organisations, water associations, and networks at European, national, or regional levels. Partners have decided to join forces to address the big challenge of water for all. The Partnership is structured around five operational pillars looking at strategic issues (Pillar A), development of knowledge through calls for proposals (Pillar B), science – policy – end-users' interface (Pillar C), demonstration (Pillar D), and international cooperation (Pillar E).

# OUTLOOK OF EXISTING FINANCIAL / DEVELOPMENT PROGRAMMES

## 1. Presentation

This deliverable is the third release of a biannual series of regular updates on the outlook of the financial programmes for water investments. Assessing the financial outlook of water investment opportunities provides framework information for the overarching **Water4All** objective of facilitating the uptake, scaling, and diffusion of water innovations in Europe and beyond.

This effort is part of the demonstration activities encompassed in **Water4All's Pillar D** to connect innovators to development/investment programmes to support an enabling environment for a wider and faster implementation of water innovations.

These outlooks and further updates intend to support innovators interested in taking action to increase the probability of having access to financial resources and also help investors adapt their programmes to support faster and wider uptake of water innovations.

Linking water innovations with financial opportunities is a step forward that should facilitate mutual advances in many areas:

- It provides useful insights to support the development of innovations to provide better answers to market and institutional demands.
- It helps to enhance product development to facilitate investment cost recovery and sustainable financial operation once in the market.
- It supports investors in developing criteria and tools for selecting innovations for funding, widening the financial sources for innovations in water, developing new financial instruments to foster scaling and accelerate the market diffusion of water innovations, etc.

Financial programmes can be defined as structured sets of resources and rules that define how financial resources are to be deployed through a combination of measures to ensure efficient utilisation of funds and the timely achievement of a set of predetermined goals. Thus, becoming a critical link between strategic water development plans, such as River Basin Management Plans under the WFD or Flood Risk Management Plans under the FD and their actual implementation.

A comprehensive knowledge of the financial programmes available, as well as the perspectives of water investments in the coming years, is, therefore, a first important step for assessing the opportunities available for innovative solutions in the water sector.

In successive updates of this report, we will take stocks of **Water4All**, Pillar D demonstration activities to inform potential financial sources and financial programmes about innovations and their potential to create value for stakeholders and to contribute to social and policy priorities.

## 2. Setting the scene: Sustainable Finance

**Sustainable finance**, also known as green finance or responsible finance, refers to the integration of **environmental, social, and governance (ESG)** criteria into financial decision-making processes (See **Box 1**). The primary goal of sustainable finance is to promote economic growth while also contributing to

environmental and social sustainability. It encompasses a range of financial activities, including investing, lending, and insurance, with a focus on sustainability-related factors.

#### BOX 1: ESG AND SUSTAINABLE FINANCE IN THE EU

From this standpoint, sustainable finance is understood in the EU's policy context as financial resources to support economic growth while abating pressures on the environment to help reach the climate- and other environmental objectives of the European Green Deal<sup>4</sup> as well as the EU's international commitments on these grounds, factoring in social and governance aspects too.

According to the EC, **sustainable finance** stands for the process of taking environmental, social, and governance (ESG) considerations into account when making investment decisions in the financial sector, leading to long-term investments in more sustainable economic activities and projects. The emphasis so far has been on environmental issues alone.

Within **environmental considerations**, the EC includes climate change mitigation and adaptation activities as part of one layer, and issues such as biodiversity conservation, pollution prevention, and circular economy. These categories are somehow misleading: i.e., pollution control is an outcome (an ancillary benefit) of climate change mitigation efforts, a circular economy is but a means to an end... Whatever the case, these categories are critical to understanding the way the EC organises its work on sustainable finance.

**Social considerations**, in turn, include issues such as inequality, inclusiveness, labour relations, investment in people (social and human capital development), as well as human rights issues.

**Governance** includes management structures, employee relations, and executive remuneration. Thus, it is a limited approach to corporate governance, not necessarily linked to wider governance issues.

The **EU Sustainable Finance Agenda**, often referred to as the **EU Sustainable Finance Action Plan** is an initiative introduced by the European Commission to foster sustainable finance practices within the European Union. It is part of the broader EU strategy to promote sustainable growth and implement the United Nations' Sustainable Development Goals (SDGs) and the Paris Agreement on climate change.

### 3. The EU Sustainable Finance Agenda

The **EU Sustainable Finance Agenda** seeks to channel private sector investments into sustainable and green activities, thereby contributing to the EU's broader sustainability objectives.

The primary objectives of the EU Sustainable Finance Agenda include:

- **Aligning private sector investments with the EU's sustainability goals**, such as climate change mitigation, environmental protection, and social inclusion.
- **Reducing the financing of activities that have a negative impact on the environment and society.**
- **Enhancing transparency and disclosure** of sustainability-related information to enable better-informed investment decisions.

Sustainable finance thus channels **private investment into the transition** to a climate-neutral, climate-resilient, resource-efficient, and fair economy, to complement public spending and investment. This is not of course a one-off effort, right off the bat, but rather a process, a transition in itself. Hence,

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<sup>4</sup> EP (2022). [Green Deal: key to a climate-neutral and sustainable EU](#).

sustainable finance is about financing both what is already considered environment-friendly today (the so-called “green” finance) and what is transitioning to environment-friendly performance levels over time (namely transition finance).

**Transition finance** is therefore about financing private investments to abate current greenhouse gas emissions (GHG) or other environmental impacts and move towards a climate-neutral and more sustainable economy. For instance, these could be investments in cleaner production methods or reducing environmental loads to the largest possible extent where no cleaner technologies are yet available<sup>5</sup>.

Led by its Directorate General for Financial Stability, Financial Services and Capital Markets Union (DG FISMA), the European Commission has fostered since 2017 a comprehensive agenda on sustainable finance.

The European Commission is responsible for driving the EU Sustainable Finance Agenda. Discussions around this agenda are organized through various means, including:

- **Regulatory Proposals:** The European Commission drafts legislative proposals, including the **Sustainable Finance Disclosure Regulation (SFDR)** and the **Taxonomy Regulation**, which define criteria and disclosure requirements for sustainable financial products and activities.
- **Public Consultations:** The European Commission often conducts public consultations to gather input from stakeholders, including financial institutions, investors, NGOs, and the public, to shape sustainable finance policies.
- **Expert Groups:** The European Commission has established expert groups, such as the **Technical Expert Group on Sustainable Finance (TEG)**, to provide expertise and technical advice on specific aspects of the agenda.
- **EU Member States:** Member states play a role in implementing and enforcing EU sustainable finance regulations.
- **Stakeholder Engagement:** Various stakeholders, including financial market participants, are engaged in dialogues and working groups to contribute to the development and implementation of sustainable finance policies.

The **EU Sustainable Finance Agenda** is a dynamic and evolving framework that aims to transform the financial sector to support a more sustainable and green economy while fostering responsible investments and **better aligning the financial system with broader societal goals**. It also seeks to ensure that *investors and consumers have access to accurate and relevant information regarding the sustainability of financial products and services*.

The European Union's commitment to advancing sustainable finance and aligning financial activities with environmental and sustainability goals is evident through its **Sustainable Finance Agenda**. This agenda comprises a series of **Sustainable Finance Packages**, each representing a significant milestone in the EU's journey toward a greener and more sustainable financial sector. These packages encompass various regulatory and legislative measures designed to promote responsible and sustainable financial practices.

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<sup>5</sup> Objectives of fostering [investment](#) in sustainable projects are specified in the the **European Green Deal Investment Plan (EGDIP)**, also referred to as **Sustainable Europe Investment Plan (SEIP)**, is the investment pillar of the EU Green Deal. To achieve the goals set by the Green Deal, the Plan will mobilise at least €1 trillion in sustainable investments over the next decade. Part of the plan, the **Just Transition Mechanism**, will be targeted to a fair and just green transition. It will mobilise at least €100 billion in investments over the period 2021-2027 to support workers and citizens of the regions most impacted by the transition.

The Sustainable Finance Packages address key objectives, including the development of the **Taxonomy Regulation**, the **Sustainable Finance Disclosure Regulation (SFDR)**, and new initiatives such as the **EU Green Bond Standard**. These components aim to define what constitutes environmentally sustainable economic activities, enhance transparency and disclosure requirements for financial market participants, and establish criteria for green bonds, respectively. By organizing their efforts into these packages, the EU ensures a comprehensive and structured approach to promoting sustainable finance, driving investments toward more environmentally friendly and socially responsible projects, and mitigating the financing of activities harmful to the environment. Each package represents a critical step in the EU's mission to integrate sustainability considerations into financial decision-making, ultimately contributing to a more sustainable and responsible financial sector in the EU.

In 2021, the EC adopted a comprehensive package of measures to help improve the flow of money towards financing the transition to a sustainable economy. For the last few years, this has made the EU a global leader in setting standards for sustainable finance<sup>6</sup>.

The **EU 2021 Sustainable Finance Strategy**<sup>7</sup> 2021 aims to support the financing of the transition to a sustainable economy by proposing action in four areas: **transition finance, inclusiveness, resilience and contribution of the financial system, and global ambition**.

That Strategy builds on the **2018 Action Plan on Financing Sustainable Growth**<sup>8</sup> and the **Transition Finance Report** by the Technical Expert Group on Sustainable Finance (TEG)<sup>9</sup>. Interestingly enough, much of the sustainable development architecture in the EC was already available by then. It's worth mentioning some of those critical elements to divert capital flows towards a more sustainable economy.

The **six environmental objectives** are as follows:

- Climate change mitigation.
- Climate change adaptation.
- **The sustainable use and protection of water and marine resources.**
- The transition to a circular economy.
- Pollution prevention and control.
- The protection and restoration of biodiversity and ecosystems.

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<sup>6</sup> Similar developments in the United States lead to the adoption a year ago (Aug 2022) of the [Inflation Reduction Act](#) which is a powerful stimulus to accelerate the transition to a clean energy economy (See [United States Environmental Protection Agency](#)).

<sup>7</sup> COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. Strategy for Financing the Transition to a Sustainable Economy. [COM/2021/390 final](#).

<sup>8</sup> COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE EUROPEAN COUNCIL, THE COUNCIL, THE EUROPEAN CENTRAL BANK, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS. Action Plan: Financing Sustainable Growth. [COM/2018/097 final](#).

<sup>9</sup> Platform on Sustainable Finance (2021). [Transition finance report \(March 2021\)](#).

The first approved Delegated Act was the **Climate Delegated Act**<sup>10</sup>, addressing the first two environmental objectives. More recently, a new Delegated Act (**Environmental Delegated Act**)<sup>11</sup>, has been passed, addressing the remainder of objectives.

Back in June 2023, the EC put forward a new **package of measures**<sup>12</sup> to build on and strengthen the foundations of the EU sustainable finance framework. The aim was to ensure the EU sustainable finance framework continues to support companies and the financial sector while encouraging the private funding of transition projects and technologies. Specifically, the EC added activities to the EU Taxonomy and proposed **new rules for Environmental, Social, and Governance (ESG)**<sup>13</sup> rating providers, which will increase transparency on the market for sustainable investments.

**Annex I** to the Environmental Delegated Act<sup>14</sup> is specifically addressed to the **sustainable use and protection of water and marine resources**.

Further, there are other Delegated Acts on amending **Art. 8** of the Taxonomy Regulation<sup>15</sup>, amending the Climate Delegated Act<sup>16</sup>, and the Disclosures Delegated Act<sup>17</sup>.

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<sup>10</sup> [Commission Delegated Regulation \(EU\) 2021/2139 of 4 June 2021](#) supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives. [C/2021/2800](#).

<sup>11</sup> [COMMISSION DELEGATED REGULATION \(EU\) .../of 27.6.2023 supplementing Regulation \(EU\) 2020/852](#) of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities {SWD(2023) 239 final}.

<sup>12</sup> COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS A sustainable finance framework that works on the ground. [COM/2023/317 final](#).

<sup>13</sup> EC Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the transparency and integrity of Environmental, Social and Governance (ESG) rating activities. [COM/2023/314 final](#).

<sup>14</sup> ANNEX 1 to the COMMISSION DELEGATED REGULATION (EU) .../...supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities. [C\(2023\) 3851 final](#).

<sup>15</sup> Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation [C/2021/4987](#).

<sup>16</sup> Commission Delegated Regulation (EU) 2022/1214 of 9 March 2022 amending Delegated Regulation (EU) 2021/2139 as regards economic activities in certain energy sectors and Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities. [C/2022/631](#).

<sup>17</sup> Commission Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities, and specifying the methodology to comply with that disclosure obligation (Text with EEA relevance) [C/2021/4987](#).

In the next sections (see sections 4, 5 and 6) we pay attention to the main components of the EU Sustainable Finance Agenda such as the **Taxonomy Regulation**, the **Sustainable Finance Disclosure Regulation (SFDR)** and the **European Sustainability Reporting Standards (ESRS)**. In the box below (See **Box 2**) we include also an overview of additional actions considered within the framework of the referred Agenda.

#### BOX 2: THE EU SUSTAINABLE FINANCE STRATEGY ENDS AND MEANS

The taxonomy and the disclosure regulations for sustainable finance are among the most prominent elements of the EU Sustainable Finance Strategy. This strategy also encompasses a comprehensive array of measures aimed at aligning incentives and regulations within the financial system with the broader policy and economic objectives of the EU.

The following is a non-exhaustive list of **additional actions** included in the **EU Sustainable Financing Agenda**:

- **EU Green Bond Standard** (and labels for green financial products)<sup>18</sup>: EU GBS. This is a voluntary standard to help scale up and raise the environmental ambitions of the green bond market. Once this legislative proposal is adopted, this proposed Regulation will set a gold standard for how companies and public authorities can use green bonds to raise funds on capital markets to finance such ambitious large-scale investments, while meeting tough sustainability requirements and protecting investors. This will be useful for both issuers and investors of green bonds. For example, issuers will have a robust tool to demonstrate that they are funding legitimate green projects aligned with the EU taxonomy. Investors buying the bonds, in turn, will be able to more easily assess, compare, and trust that their investments are sustainable, thereby reducing the risks posed by ‘greenwashing’.
- **Factoring sustainability into financial advice**. Back in 2019, the Commission published draft rules on how investment advisers and insurance distributors should take sustainability factors into account when providing advice to their client<sup>19</sup>.
- **Developing sustainability benchmarks**<sup>20</sup>. There is ongoing work in the EU Platform on Sustainable Finance to standardize the different ESG metrics available, as the level of entropy and inconsistency is quite high. To better integrate sustainability in ratings and market research (i.e., to strengthen disclosure on how ESG factors are being considered), ESMA updated its Guidelines on disclosure requirements for credit ratings (ESMA 2021<sup>21</sup> on the basis of ESMA, 2019<sup>22</sup>).
- **Clarifying asset managers’ and institutional investors’ duties** regarding sustainability. A regulation on sustainability-related disclosures in the financial services sector was approved<sup>23</sup>.
- Introducing a **‘green supporting factor’** in the EU prudential rules for banks and insurance companies. The European Parliament and Council agreed in the context of the negotiations on Risk Reduction Measures for banks to mandate the European Banking Authority (EBA) to identify the principles and methodologies for the inclusion of ESG risks in the review and evaluation performed by supervisors and explore the prudential soundness of introducing a more risk-sensitive treatment of “green asset” (so-called green supporting factor). These rules aim at making EU banks more resilient to possible economic shocks while contributing to EU economic transition. The new rules amending the Capital Requirements Regulation (CRR)<sup>24</sup> are expected to apply from 1<sup>st</sup> January 2025, with certain elements of the regulation phasing in over the coming years. Changes related to the supervision of credit institutions are implemented via an amendment of the Capital

<sup>18</sup> Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on European green bonds. [COM/2021/391 final](#).

<sup>19</sup> See more information on the process in EC (2021): [Sustainable finance – obligation for investment firms to advise clients on social and environmental aspects of financial products](#).

<sup>20</sup> See more information on the process in EC (2022): [EU labels for benchmarks \(climate, ESG\) and benchmarks’ ESG disclosures](#).

<sup>21</sup> ESMA (2021). [Guidelines On Disclosure Requirements Applicable to Credit Ratings](#).

<sup>22</sup> ESMA (2019). [Final Report. Guidelines on Disclosure Requirements Applicable to Credit Ratings](#).

<sup>23</sup> [Regulation \(EU\) 2019/2088](#) of the European Parliament and of the Council of 27 November 2019 on sustainability related disclosures in the financial services sector.

<sup>24</sup> More information on the process in EC (2023): [Prudential requirements](#).



**BOX 2: THE EU SUSTAINABLE FINANCE STRATEGY ENDS AND MEANS**

Requirements Directive (CRD)<sup>25</sup> and will have to be transposed by member states by mid-2025.

- **Strengthening sustainability disclosure and accounting rule-making.** This has largely evolved from initial and preliminary approaches to non-financial disclosure and has now been consolidated in the Directive on Corporate Sustainability Reporting<sup>26</sup>.

## 4. The Taxonomy Regulation

The EU **Taxonomy Delegated Acts** are at the core of sustainable finance efforts in the EU nowadays. The taxonomy remains the cornerstone of the EU's sustainable finance framework and an important market transparency tool that helps direct investments to the economic activities most needed for a green transition.

The taxonomy is a classification system (and it thus describes what an environmentally sustainable activity is and under which circumstances), a measuring tool (as it measures the degree of sustainability of an investment and the extent to which companies uptake sustainable activities), a transition tool (to plan and monitor change), but it is not a mandatory list to invest in, a rating system of the sustainability of companies, any kind of judgement on the financial performance of an investment, or a statement on the unsustainability of investments.

According to the EU Commission (2023)<sup>27</sup>: “The **taxonomy** is above all a tool for companies, to facilitate their access to finance for the green transition, and for the financial sector, to support the building of sustainable finance portfolios and measure the degree of sustainability of investments. It is not a mandatory list to invest in. Investors can also use the taxonomy to make better-informed investment decisions. They can still choose to invest in companies that carry out activities that have different degrees of environmental performance, or activities that do not comply with the taxonomy criteria. The mere fact that a company does not have taxonomy-aligned activities does not mean that conclusions can be drawn regarding the company's environmental performance or its ability to access finance. Companies can voluntarily use the taxonomy as a tool to specify transition targets for economic activities, for instance in combination with a transition plan. The accompanying Commission Recommendation on transition finance further explains how the taxonomy can be voluntarily used for that purpose”.

The **Taxonomy Regulation**<sup>28</sup>, first approved on June 18<sup>th</sup>, 2020, is but a common classification of economic activities (not companies, not sectors), substantially contributing to some environmental objectives (with no significant harm to others) using science-based criteria (the so-called **Technical Screening Criteria, TSC**).

The taxonomy Regulation is complemented by the so-called **Delegated Acts**. The Commission adopts them based on a delegation granted in the text of an EU law, in this case, a legislative act. The

<sup>25</sup> [Directive \(EU\) 2019/878](#) of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures.

<sup>26</sup> [Directive \(EU\) 2022/2464](#) of the European Parliament and of the Council of 14 December 2022 amending Regulation (EU) No 537/2014, Directive 2004/109/EC, Directive 2006/43/EC and Directive 2013/34/EU, as regards corporate sustainability reporting.

<sup>27</sup> *COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS: [A sustainable finance framework that works on the ground](#). {SWD(2023) 209 final}*

<sup>28</sup> [Regulation \(EU\) 2020/852](#) of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088.

Commission's power to adopt delegated acts is subject to strict limits: the delegated act cannot change the essential elements of the law; the legislative act must define the objectives, content, scope, and duration of the delegation of power; Parliament and Council may revoke the delegation or express objections to the delegated act.

The EU Taxonomy is the first science-based classification that helps define which investments are environmentally sustainable. Its impact on water infrastructures represents technological challenges and opportunities to foster innovation that will guide the transition to a sustainable economy.

Initially, the EU taxonomy developed criteria related to climate change mitigation and adaptation. However, in June 2023, after a detailed consultation process decisions were taken to extend these criteria to the remaining four environmental objectives.

The 2023 **Taxonomy Delegation Act**<sup>29</sup> in its **Annex I**<sup>30</sup> (see EC, 2023 for more information<sup>31</sup>) includes detailed technical screening criteria for determining the conditions under which provision of water services, improvements in water efficiency, sustainable urban drainage systems, nature-based solutions for flood and drought risk prevention and protection, digitalization along the water cycle and other innovative water technologies substantially contribute to the sustainable use and protection of water and marine resources and for determining whether that economic activity causes no significant harm to any of the other environmental objectives.

These new criteria not only affirm the contributions of these activities to climate change adaptation but also underscore the crucial role of water infrastructures in ecosystem preservation and the circular economy. They promote water efficiency, reuse, and recycling, marking a paradigm shift by considering water infrastructures and process innovations as potential sources of resources and energy.

As a result, water utilities may represent one of the industrial sectors that best exemplify the technological impact and transformative potential of the taxonomy.

The figure below (see **Figure 1**) illustrates some of the technical criteria defined in the 2023 Taxonomy Delegation Act that are relevant to the water sector, covering activities such as wastewater treatment, desalination, reclaimed water production, and phosphorus recovery. These criteria introduce new technical standards relevant to financing innovations by utilities along the urban water cycle.

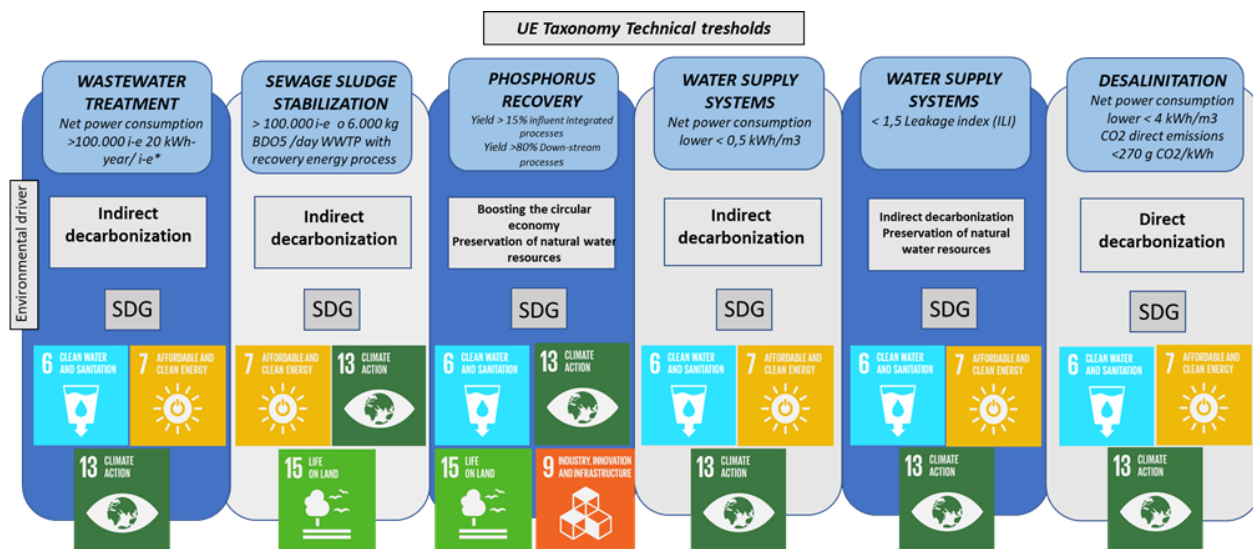
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<sup>29</sup> COMMISSION DELEGATED REGULATION (EU) .../... of 27.6.2023 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control, or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities. [C\(2023\) 3851 final](#).

<sup>30</sup> ANNEX 1 to the COMMISSION DELEGATED REGULATION (EU) .../... supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to the sustainable use and protection of water and marine resources, to the transition to a circular economy, to pollution prevention and control or to the protection and restoration of biodiversity and ecosystems and for determining whether that economic activity causes no significant harm to any of the other environmental objectives and amending Delegated Regulation (EU) 2021/2178 as regards specific public disclosures for those economic activities. [C\(2023\) 3851 final ANNEX I](#).

<sup>31</sup> EC (2023). [Sustainable finance package](#) (13<sup>th</sup> June 2023).

FIGURE 1: THE EU TAXONOMY AND WATER INNOVATION IN THE URBAN WATER CYCLE



Source: GWI (2023)<sup>32</sup>

## 5. Sustainable Finance Disclosure Regulation (SFDR)

The **Sustainable Finance Disclosure Regulation (SFDR)** is an EU regulation designed to enhance transparency and disclosure of sustainability-related information and avoid greenwashing within the financial sector. It requires financial market participants, including investment managers, to disclose the environmental, social, and governance (ESG) factors that may impact their investment decision-making processes.

The SFDR also establishes specific disclosure obligations for financial products, such as funds and investment portfolios, to inform investors about the sustainability characteristics of those products. By providing this information, the SFDR aims to ensure that investors can make informed decisions and allocate capital to investments that align with their sustainability preferences.

It is part of the EU's broader efforts to promote responsible and sustainable financial practices and increase the flow of investments into sustainable activities and projects.

To combat **greenwashing**, regulations and standards have been introduced, such as the EU's sustainable finance regulations, to ensure transparency and accuracy in environmental claims and disclosures. Greenwashing is problematic because it can mislead consumers who are genuinely concerned about the environment (See **Box 3**). When consumers believe they are making sustainable choices but are, in fact supporting businesses that engage in greenwashing, it undermines the trust in eco-labels and claims. This can also divert resources and attention away from genuinely sustainable products and practices (ESMA, 2023)<sup>33</sup>.

<sup>32</sup> GWI (2023). *Navigating the impact of the EU Taxonomy on water infrastructure*. 2 May 2023.

<sup>33</sup> See ESMA (2023). *Progress Report on Greenwashing Response to the European Commission's request for input on "greenwashing risks and the supervision of sustainable finance policies"*

### BOX 3: GREENWASHING RISK

**Greenwashing** is a practice where sustainability-related statements, declarations, actions, or communications do not clearly and fairly reflect the underlying sustainability profile of an entity, a financial product, or financial services. This practice may be misleading to consumers, investors, or other market participants.

The figure below shows the structured approach developed by the ESMA (2023) to identify areas more exposed to greenwashing risks. ESMA assessed greenwashing across four key dimensions: i) the role that an actor of a given sector may play in greenwashing, namely trigger, spreader, or receiver of misleading sustainability claims; ii) the topics on which sustainability claims are made; iii) the qualities which make them misleading such as omission, cherry-picking, etc; and iv) the channels through which such claims are communicated, such as regulatory information, marketing material, etc.

Dimensions	Detailed parameters used to analyse greenwashing risks under each dimension		
Roles	Trigger	Spreader	Receiver
Sustainability topics (and sub-topics) about which a claim is communicated	<b>Governance and resources</b> <ul style="list-style-type: none"> <li>Board and senior management role (governance-related elements of entity-level ESG policies)</li> <li>ESG resources and expertise (incl. ESG dedicated staff)</li> </ul>	<b>ESG strategy</b> <ul style="list-style-type: none"> <li>ESG strategy, objectives, characteristics (integration of sustainability in strategy, ESG characteristics, sustainable objectives, taking into account clients' sustainability preferences)</li> <li>Sustainability management policies</li> <li>ESG credentials (qualifications, labels, certificates): adherence to (voluntary) reporting frameworks (e.g. UNPRI, TCFD), labels, ratings, awards, certifications</li> <li>Engagement with stakeholders (proxy voting and active engagement)</li> </ul>	<b>Sustainability metrics and targets</b> <ul style="list-style-type: none"> <li>ESG performance to date: ESG results, metrics for real-world impact</li> <li>Pledges about future ESG performance: ESG targets (incl. net zero targets), transition plans</li> </ul>
Qualities through which the claim is misleading investors or consumers	<div style="display: flex; justify-content: space-between;"> <div style="border: 1px dashed black; padding: 5px;"> <b>Misleading through provision of information</b> <ul style="list-style-type: none"> <li>Empty claims (exaggeration and/or failure to deliver on claims)</li> <li>Inconsistency</li> <li>Irrelevance</li> <li>Outright lie (false)</li> <li>Suggestive non-textual imagery and sounds</li> <li>Suggestive use of ESG-related terminology</li> </ul> </div> <div style="border: 1px dashed black; padding: 5px;"> <b>Misleading through omission of information</b> <ul style="list-style-type: none"> <li>Selective disclosure / cherry-picking</li> <li>Omission or lack of disclosure</li> <li>Vagueness or ambiguity or lack of clarity</li> <li>Lack of fair and meaningful comparisons, thresholds and/or underlying assumptions</li> <li>No proof (unsubstantiated)</li> <li>Outdated information</li> </ul> </div> </div>		
Channels through which the claims are communicated	Regulatory information (e.g. Prospectuses, Financial statements, Mandatory sustainability disclosures, Issuers' press releases etc.)		Marketing materials (including website, social media, presentations to investors)
	Ratings (inc. ESG ratings) and Benchmarks & Labels	Intermediary/advice information	Product information (including internal classifications)
			Voluntary reporting, falling outside previous categories

Source: ESMA (2023)

In these reports, the ESAs (European Supervisory Authorities) put forward a common high-level understanding of greenwashing applicable to market participants across their respective remits – banking, insurance and pensions, and financial markets. The ESAs will publish final greenwashing reports in May 2024 and will consider final recommendations, including possible changes to the EU regulatory framework.

## 6. The European Sustainability Reporting Standards (ESRS)

The **European Sustainability Reporting Standards (ESRS)** are a set of standards developed by the **European Financial Reporting Advisory Group (EFRAG)** as part of the EU's broader Sustainable Finance Agenda. These standards aim to enhance and standardize sustainability reporting by companies operating in the European Union. Sustainability reporting involves disclosing information about a company's environmental, social, and governance (ESG) performance and its impact on society and the environment.

The ESRS serves as a tool for companies to communicate their sustainability-related information in a consistent and comparable manner. They cover a wide range of ESG factors, including climate change, biodiversity, social and employee matters, and more. The ESRS is designed to help investors, stakeholders, and the public make informed decisions and assess the sustainability performance of European companies.

The connection between the European Sustainability Reporting Standards and the EU Sustainable Finance Agenda is that these standards play a crucial role in advancing the objectives of the agenda. The EU's Sustainable Finance Agenda aims to promote sustainable economic growth, address environmental challenges, and align the financial sector with sustainability goals. Sustainability reporting standards are an integral part of this agenda as they facilitate transparency, accountability, and informed decision-making in sustainable finance.

The EU has proposed regulations such as the Sustainable Finance Disclosure Regulation (SFDR) and the Taxonomy Regulation to create a framework for sustainable finance and investments. The ESRS complements these regulations by providing a standardized way for companies to report their sustainability performance, making it easier for investors to assess the environmental and social impact of their investments.

In summary, the European Sustainability Reporting Standards are a key component of the EU's Sustainable Finance Agenda, contributing to the broader goals of sustainability, transparency, and responsible investing within the European Union.

## Final Remarks and the Way Ahead

The EU Sustainable Finance framework stands poised to make significant contributions to water sustainability within the European Union, holding great promise for fostering the uptake of innovations in the water sector.

By aligning investor interests with the objectives of the EU Green Deal, this framework is set to incentivize the mobilization of private financial resources, in conjunction with public funds, with the aim of supporting the sustainable use and protection of water and marine resources.

While this potential is yet to be fully realized, it serves as a beacon for driving innovative solutions to address the multifaceted challenges faced by the water sector.

The framework also acts as a deterrent to financing practices detrimental to the environment and society, signalling a future marked by more environmentally responsible investments.

As the framework's transparency and disclosure standards improve, investors will be better positioned to make informed decisions, further stimulating the adoption of innovative technologies and approaches within the water sector.

This holds the promise of propelling the EU towards a future that is more sustainable, innovative, and water-secure.



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