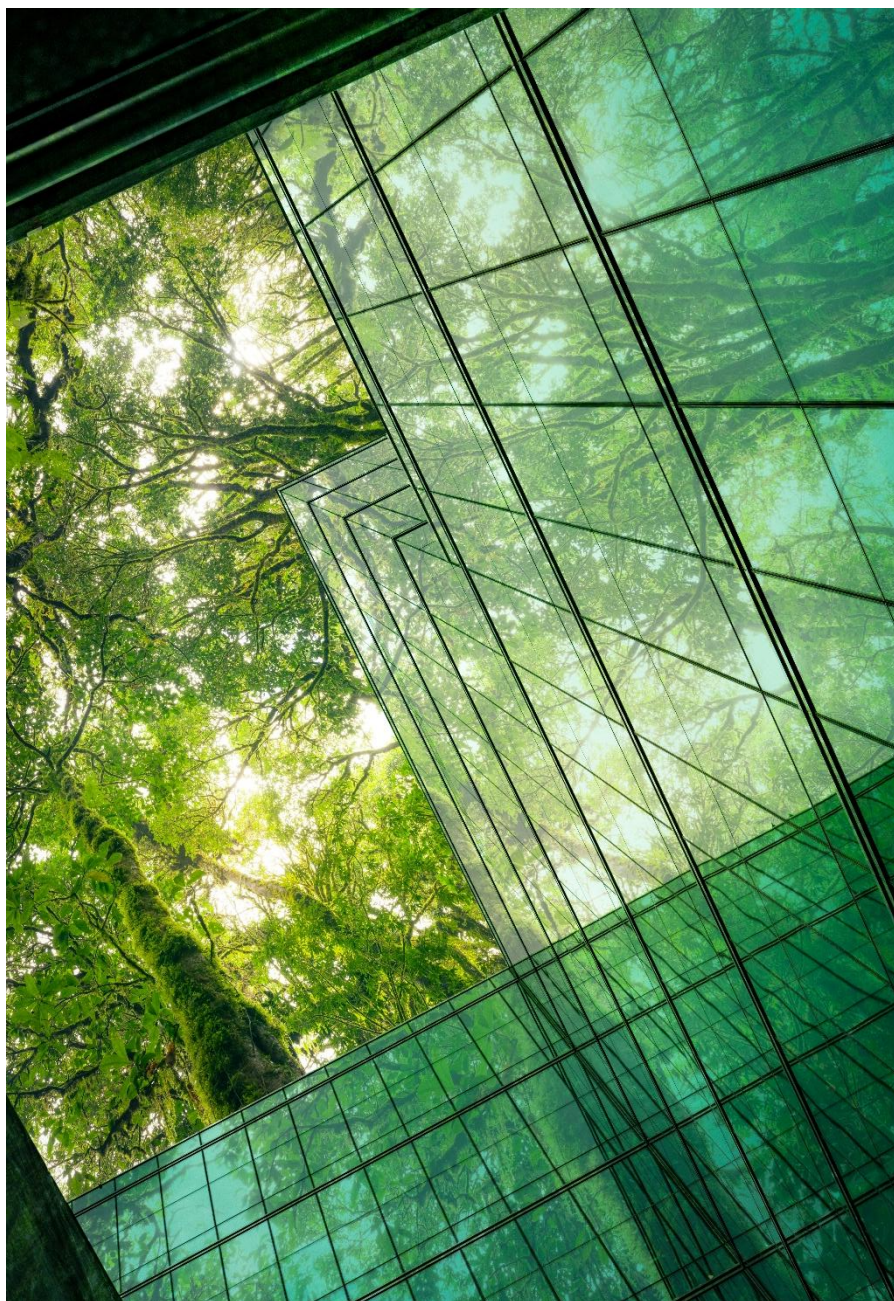

OMNIBUS legislation on sustainability

Possible impact on water financing





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TAXONOMY AND STANDARDS AS TOOLS FOR STEERING INVESTMENTS TOWARDS WATER.

The Omnibus package represents a step toward fostering a more favourable business environment. However, while regulatory simplification is essential, it must not come at the expense of losing critical data needed for evidence-based decision-making.

With water rising rapidly on the sustainable finance agenda, limiting reporting obligations primarily to large companies would significantly narrow the scope of available data for financial decision-making. Between data inconsistencies, greenwashing fears, and lack of transition clarity, market participants are, and will remain, cautious.



Introduction

Water is a critical resource to ensure the economic, societal, and environmental sustainability of Europe. Being a key resource for Europe, increased water pressures affect our economy and ecosystems.

Water demand from key sectors—hydrogen, batteries, semiconductors, and data centres—is set to triple by 2030, rising from €192 billion to nearly €1 trillion¹. With 29% of the EU already facing chronic water scarcity, this surge threatens Europe's competitiveness and strategic autonomy². Agriculture, responsible for 28% of EU water use—and over 80% in some Member States—is central to this challenge. As competition intensifies, securing timely access to quality water is essential.

Water efficiency is vital for Europe's competitiveness and strategic autonomy. Building water resilience demands consistent action and an enabling framework. Over the past five years, EU institutions have modernised water legislation and promoted smarter water use, innovation, infrastructure maintenance, and stakeholder awareness. But these advances hinge on adequate financing.

The Organisation for Economic Cooperation and Development (OECD) estimates that all EU Member States together spend on average EUR 100 billion per year on water supply and sanitation but it remains insufficient to meet the UWWTD and DWD requirements alone³. Approximately EUR 255 billion in water-related investments is required by 2030 to

safeguard the economy and the environment⁴, yet current EU funding allocations fall significantly short.

The scale of investment required to ensure water resilience cannot be generally met by public finance and current tariff revenues alone. The role of private sector investment is critical. The OECD⁵ underscores the importance of blended finance and innovative funding mechanisms to address water investment gaps.

As ESG evolves from a reporting tool to a performance driver, investors are demanding materiality and regulators are calling for clarity. The spotlight is now on transition finance—not just rewarding the already green, but backing credible transformation pathways for companies and sectors in transition.

Water is climbing the sustainable finance agenda as investors and companies increasingly recognise it as a material financial risk. While integration of physical water risks—like droughts, floods, and long-term stress—into financial assessments is improving, data quality and consistency remain key hurdles. Investors now seek actionable insights, not just scores or labels.

But how to build trust? Between data inconsistencies, greenwashing fears, and lack of transition clarity, market participants are, and will remain, cautious. The direction is clear: sustainability is becoming central to valuation.



€ 255 billion

in water-related investments is required by 2030 in Europe to comply with the water acquis.



¹ <https://watereurope.eu/wp-content/uploads/2024/10/Water-Europe-Socio-Economic-Study-1.pdf>

² https://environment.ec.europa.eu/topics/water/water-scarcity-and-droughts_en

³ https://commission.europa.eu/news/estimating-investment-needs-and-financing-capacities-water-related-investment-eu-member-states-2020-05-28_en

⁴ https://watereurope.eu/wp-content/uploads/2024/10/Water-Europe_Final-Report_15102024-1.pdf

⁵ OECD (2022), Financing a Water Secure Future, OECD Studies on Water, OECD Publishing, Paris, <https://doi.org/10.1787/a2ecb261-en>.

Safeguard Water Data integrity in the Omnibus

The Omnibus package, a suite of proposals aimed at simplifying EU rules, enhancing competitiveness, and boosting investment capacity, marks a step toward a more agile regulatory environment. While easing administrative burdens is welcome, it must not come at the cost of losing access to essential sustainability data, particularly in relation to water risks. Regulatory simplification should support, not undermine, evidence-based decision-making and long-term financial transparency.

The first Omnibus reforms introduce simplifications in areas such as sustainable finance reporting, sustainability due diligence, and the EU Taxonomy. However, the premature roll-back of requirements under the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS), still in their early implementation phase, risks eroding the data foundations needed to assess water-related transition risks, double materiality, and financial exposure. This could jeopardize the mobilisation of private capital in water-related projects.

Preserve ESRS E3: A Pillar for Water Governance

The new Corporate Sustainability Reporting Directive (Directive (EU) 2022/2464) and the European Sustainability Reporting Standards (ESRS), developed by EFRAG, is a milestone for water governance in the EU. It mandates disclosure of:

- Water consumption and discharge;
- Water stress in upstream and downstream value chains; and
- CAPEX and OPEX for water efficiency and quality improvements.

These disclosures underpin due diligence requirements under the Sustainable Finance Disclosure Regulation (SFDR) and are crucial for integrating water risks into portfolio-level decisions. Water-intensive sectors, such as agriculture, textiles, chemicals, and mining, are particularly dependent on this transparency to attract sustainable finance and demonstrate water resilience.

Broaden the Reporting Base: SMEs Matter

Limiting sustainability reporting to large enterprises would critically narrow the data available to financial actors. The financial sector's due diligence obligations under SFDR Article 4 depend on corporate sustainability disclosures to assess principal adverse impacts (PAIs), with water-related PAIs becoming increasingly material yet often underreported. Exempting SMEs risks creating adverse selection in water finance by obscuring water-related risks and diminishing the potential for meaningful industry benchmarks. Instead, the EU should adopt a 'right-sized' approach⁶: simplified but mandatory quantitative disclosures for SMEs that ensure transparency without imposing undue burden.

Avoid Water Finance Gap

Current proposals to restrict EU Taxonomy reporting to a narrow subset of large firms undermine its utility for assessing sustainable water investments. Moreover, the Taxonomy's current scope, limited to water services and nature-based solutions, fails to reflect the broader landscape of water efficiency initiatives. This creates blind spots for financial institutions, reducing their ability to identify and fund transformative projects in water management, especially in industrial and agricultural sectors.

Taxonomy and sustainability standards are indispensable tools for directing capital toward water-smart investments. As double materiality becomes a norm, water intensive sectors will face rising expectations to demonstrate how they invest in water resilience. Diluting these frameworks through over-simplification will compromise market confidence and hamper the EU's ability to mobilise private capital. Without robust, comparable, and widely available data, the financial sector will struggle to support the water transition.

The result would be a widening gap in water investment, greater intra-EU competition over resources. Without the mobilisation of private capital and alternative sources of funding, the water crisis in Europe will also deepen, affecting the resilience and competitiveness of the EU. Therefore, the effectiveness of taxonomy and sustainability standards should not be compromised by excessive deregulation.

⁶ Evidence from [CDP's global disclosure platform](#) shows that simplification works in practice: more than 12,500 SMEs participated in a streamlined environmental disclosure process in 2024. This version of the corporate

questionnaire retained alignment with broader frameworks while reducing the number of required data points and offering tailored guidance, demonstrating that simplified reporting can achieve wide uptake without sacrificing data quality.

Recommendations

Simplification of reporting requirements is needed, and we welcome the European Commission's initiative in this area. However, more than excluding entire stakeholder groups from reporting obligations, it is necessary to make reporting standards consistent and simplified, and to provide reliable methodologies for assessing double materiality. It is also crucial to focus reporting efforts on quantitative data instead of qualitative and descriptive information.

1

Emphasise coherence of the Taxonomy with EU water and finance policy. Current coverage focuses narrowly on utilities and wastewater services. Yet, water risk exists across sectors, especially agriculture, food processing, textiles, mining, and even ICT/data infrastructure. Initiatives addressing this, like the Joint Research Centre's technical input to the EU Taxonomy, which recommends broader sectoral inclusion for environmental objectives beyond climate should be expanded.

2

Implement a dedicated water tag or KPI within green bonds or taxonomy reporting templates in order to increase sustainable finance visibility on cross-sectoral water efficiency.

3

Embed the water resilience strategy objectives within the EU Taxonomy Regulation and expand technical screening criteria to a larger extent to better encompass water-related objectives under the 'sustainable use and protection of water and marine resources' environmental objective (Article 9(e) of the EU Taxonomy Regulation), in line with the recommendations of the Platform on Sustainable Finance.

4

Include specific criteria for investments contributing to manage aquifer recharge, reclaimed water reuse, catchment restoration, or nature-based solutions, thereby unlocking 'taxonomy aligned' capital flows, in the forthcoming delegated acts expected in 2025.

5

Improve data collection and transmission of water demand, water consumption and resource use efficiency in the widest possible group of economic entities, in order to address water shortages.

6

Implement a framework for assessing double materiality of water with sectoral benchmarks and templates for assessing water materiality and prevent inconsistent interpretation. The EFRAG implementation guidance for double materiality assessments (drafted in 2023) identifies water as a key risk for multiple sectors but lacks sector-specific thresholds.

7

Raise water sector's visibility for financial market actors by defining which water-related investments qualify as sustainable activities and strengthen the focus on taxonomy and standards as tools for steering investments towards sustainable finance.

8

Continue to harmonise and improve data accessibility and quality via the Data Act and the European Single Access Point (ESAP) initiative.

9

Provide investors with more information on what they consider investing in to facilitate comparison with similar investment projects and reducing greenwashing or other non-environmentally oriented acts. Increased transparency eliminates uncertainty whether certain investment will be recognised as 'sustainable'.

List of water policy management challenges, risks and challenges



These challenges are either explained or explain other risks

- Infrastructure gaps and aging systems
- Transboundary water conflicts groundwater over-extraction
- Deficits in governance and regulation
- Financing and investment shortfalls
- Technological and data limitations



Water policy and management challenges

- Food security threats
- Public health concerns
- Energy production risks
- Economic disruptions
- Migration and displacement
- Political instability and conflict
- Urbanization challenges
- Economic costs of extreme weather and climate events



Wider social and economic challenges from water risks

- Water Scarcity and allocation
- Flooding and water logging
- Water pollution and quality control
- Climate change and variability
- Loss of biodiversity and other ecosystem services in aquatic ecosystems