EUROPEAN COURT OF AUDITORS

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Press Release

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EU not doing enough to stimulate sustainable investments

The transition to a net-zero emission economy will require significant private and public investment, but the EU is not doing enough to channel money into sustainable activities. That is the conclusion of a special report by the European Court of Auditors (ECA) that calls for more consistent EU action. The European Commission has rightly focused on increasing transparency in the market, but the auditors criticise the lack of accompanying measures to address the environmental and social cost of unsustainable economic activities. According to the report, the Commission needs to apply consistent criteria to determine the sustainability of EU budget investments and better target efforts to generate sustainable investment opportunities.

"The EU's actions on sustainable finance will not be fully effective unless additional measures are taken to price in the environmental and social costs of unsustainable activities," said Eva Lindström, the Member of the European Court of Auditors responsible for the report. *"Unsustainable business is still too profitable. The Commission has done a lot to make this unsustainability transparent, but this underlying problem still needs to be addressed".*

The main issues are that the market fails to price in the negative environmental and social effects of unsustainable activities, and that there is a general lack of transparency on what is sustainable. The Commission's 2018 Sustainable Finance Action Plan addressed these issues only partially, the auditors say; many measures suffered delays and require further steps to become operational. The auditors highlight the need to fully implement the action plan and underline the importance of completing the common classification system for sustainable activities (the EU Taxonomy) based on scientific criteria. They recommend additional measures to ensure that the pricing of greenhouse gas emissions better reflects their environmental cost.

The report also highlights the important role the European Investment Bank (EIB) plays in sustainable finance. As regards EU financial support managed by the EIB, the auditors found that support provided by the European Fund for Strategic Investments (EFSI) did not focus on where sustainable investment is most needed, in particular in central and eastern Europe. In addition, only a very small part was spent on adaptation to climate change. To change this, they recommend

The purpose of this press release is to convey the main messages of the European Court of Auditors' special report. The full report is available at eca.europa.eu.

ECA Press

12, rue Alcide De Gasperi – L-1615 Luxembourg

E: press@eca.europa.eu @EUAuditors eca.europa.eu

that the Commission, in cooperation with Member States, should develop a sustainable project pipeline.

Finally, the auditors also found that the EU budget has not fully followed sustainable finance good practice and lacks consistent science-based criteria to avoid significant harm to the environment. Only in the InvestEU-programme are investments assessed against social and environmental standards comparable to those used by the EIB. This brings with it the risk that insufficiently strict or inconsistent criteria may be used to determine the environmental and social sustainability of the same activities funded by different EU programmes, including the EU's recovery fund. Furthermore, many of the criteria used for tracking the EU budget's contribution to climate objectives are not as strict and science-based as those developed for the EU Taxonomy. The auditors therefore recommend that the "do no significant harm" principle should be applied consistently across the EU budget, as should the EU Taxonomy criteria.

The audit report will feed into the implementation of the 2021 Strategy for Financing the Transition to a Sustainable Economy, published by the Commission in early July.

Background information

Many economic activities in the EU are still carbon-intensive. To achieve the 55 % greenhouse gas emissions reduction target by 2030 will require additional annual investment of around €350 billion in the energy system alone, according to the Commission. Experts have estimated that reaching net-zero emissions in the EU by 2050 will require total capital expenditure of around €1 trillion per year in the 2021-2050 period. Of that amount, EU financial support could currently help provide over €200 billion per year in the 2021-2027 period. This shows how big the investment gap is, and demonstrates that public funds alone will not be enough to achieve the above goals.

Under the 2021-2027 Multiannual Financial Framework, the EU plans to support public and private investment by allocating at least 30 % of the EU budget to climate action. In addition, Member States will have to allocate at least 37 % of the funds they receive under the Recovery and Resilience Facility ("the EU's recovery fund") to supporting climate action.

InvestEU, which succeeds EFSI, is the EIB's new investment support mechanism to mobilise private investment in projects of strategic importance for the EU. At the moment, the reporting arrangements for InvestEU do not include the actual climate and environmental results of the projects underlying the financial operations and do not disclose the amounts of the InvestEU financing which is tracked in accordance with the EU Taxonomy criteria.

Special report 22/2021: "*Sustainable finance: More consistent EU action needed to redirect finance towards sustainable investment*" is available on the ECA website (eca.europa.eu).

Press contact

ECA press office: press@eca.europa.eu

- Claudia Spiti : claudia.spiti@eca.europa.eu - M: (+352) 691 553 547
- Vincent Bourgeais: vincent.bourgeais@eca.europa.eu - M: (+352) 691 551 502