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Special Report

Sustainable finance:

More consistent EU action needed to redirect finance towards sustainable investment

EUROPEAN COURT OF AUDITORS

Contents

Executive summary

I In 2015, the European Union (EU) and its Member States signed the Paris Agreement to strengthen the global response to the threat of climate change. One of its aims is to make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. It is widely agreed that the transition to a net-zero emission economy will require significant public and private investment.

II In 2018, the Commission established a Sustainable Finance Action Plan, which included measures to redirect private finance towards sustainable investment, manage financial risks linked to climate change and improve sustainable corporate governance in the private sector. At the same time, the Commission and the European Investment Bank continued efforts to provide public financial support for sustainable investments, in particular related to climate action.

III We examined whether the Commission has been taking the right action to redirect finance towards sustainable investments. Our audit focused on whether the 2018 Action Plan addressed the key issues related to sustainable finance and was implemented on time. We also assessed whether EU financial support follows consistent sustainability criteria and contributes to supporting sustainable investment.

IV The report can feed into the implementation of the 2021 Strategy for Financing the Transition to a Sustainable Economy that will finalise and build on measures initiated under the 2018 Action Plan.

V We conclude that more consistent EU action is needed to redirect private and public finance towards sustainable investments. While the Commission focused its actions on increasing transparency in the market, it has not accompanied those actions by measures to address the cost of unsustainable economic activities. In addition, the Commission needs to apply consistent criteria to determine the sustainability of the investments it supports from its budget and better target efforts to generate sustainable investment opportunities.

VI As regards specific regulatory measures, we found that planned actions rightly focused on how to improve transparency – both on which investments are sustainable and on how the financial sector and companies report on sustainability. Many actions suffered delays and require further steps to become applicable. In particular, it has taken longer than planned to complete the common classification system for sustainable activities (the EU Taxonomy) that forms the basis for labelling financial products and standardising sustainability disclosures for companies. We consider that these measures will not be fully effective unless they are accompanied by sufficient measures to reflect the environmental and social costs of unsustainable activities.

VII As regards EU financial support, we found that the EIB has an important role to play in supporting sustainable investments and applying the EU Taxonomy. However, our analysis of the investment support provided by the European Fund for Strategic Investments showed that it provided less support for climate action in Central and Eastern Europe, where there is considerable need, than in other regions. In addition, we found little financial support to climate adaptation projects, which find it difficult to attract private finance. We also consider that the EU has not been sufficiently pro-active in supporting the development of a pipeline of sustainable projects and has not fully exploited the potential of National Energy and Climate Plans to identify sustainable investment opportunities.

VIII We also found that there is no consistent and binding requirement on all activities receiving EU financing to apply the “do no significant harm” principle. In addition, there are no requirements in EU spending programmes, other than InvestEU, for assessing individual investments against social and environmental standards comparable to those used by the EIB. This means that insufficiently strict or differing criteria may be used to determine the environmental and social sustainability of the same activities funded by different EU programmes. Furthermore, many of the criteria used for assessing and tracking the EU budget’s contribution to climate objectives are not as strict and science-based as those developed for the EU Taxonomy.

IX We recommend that the Commission should:

- complete the measures of the Action Plan and clarify compliance and audit arrangements;
- better contribute to sustainable finance by pricing greenhouse gas emissions;
- report on climate and environment related results of InvestEU;
- increase efforts to generate a sustainable project pipeline;
- apply the “do no significant harm principle” and the EU Taxonomy criteria consistently across the EU budget;
- monitor and report on the results of the Action plan and any future strategies.

Introduction

01 In 2015, the European Union (EU) and its Member States signed the Paris Agreement to strengthen the global response to the threat of climate change. One of its aims is to make "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"[1]. The EU and its Member States have also committed to implement the United Nations 2030 Agenda for Sustainable Development[2]. The EU has the goals of environmental protection and sustainable development in its Treaties and is committed to supporting international efforts to combat climate change.

02 Climate change has been recognised as a risk to the stability of the financial system[3] and the economy as a whole. The implications of climate change do not only concern the economic impact of increasingly extreme weather events or sea-level rises ("physical risks"), they also cover the risk of investments losing value due to changes in policy, technology, and legal frameworks linked to combatting climate change ("transition risk"). The European Central Bank's (ECB) economy-wide climate stress test shows that the impact of climate risks on companies and banks could even trigger a recession or a financial market crash[4].

03 The challenge is how to organise and finance a socially just and environmentally sustainable transition towards a climate neutral and resilient economy. It is widely agreed that this transition will require significant public and private investment. This will require both raising finance for the investments needed to achieve a carbon neutral economy and strengthening financial stability by incorporating environmental, social, and governance (ESG) considerations into business and investment decisions (i.e. "sustainable finance").

04 The Commission has not yet estimated the scale of the total investment needed for a socially just and environmentally sustainable transition towards a climate neutral and resilient economy by 2050 – covering both climate mitigation and adaptation to

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[1] United Nations, Paris Agreement, 2015.

[2] Commission, EU approach to sustainable development.

[3] ECB, Financial Stability Review, May 2019; FSB report The implications of climate change for financial stability.

[4] ECB, Shining a light on climate risks: the ECB's economy-wide climate stress test, 2021.

climate change (climate resilience). In 2020, the Commission estimated that achieving the 55 % greenhouse gas emissions reduction target by 2030 would require additional annual investment in the energy system alone of around €350 billion[5]. In addition, the Commission estimated the overall environmental sustainable investment gap at between €100 billion and €150 billion per year, and social investments needs at €142 billion per year by 2030[6]. Experts have estimated that reaching net-zero emissions by 2050 in the EU27 would require total capital expenditure of around €1 trillion per year in the period 2021-2050[7]. This estimate covers clean technologies and techniques in power, transportation, buildings, industry, agriculture, and energy transmission infrastructure.

05 In 2016, the Commission set up the High-level Expert Group on Sustainable Finance to provide advice on developing a sustainable finance strategy[8]. The expert group included senior experts representing civil society, the finance sector, academia and observers from European and international institutions[9]. As noted in the High-level Expert Group final report[10] and the reports of other experts[11], public intervention will be needed to achieve the required level of sustainable investment and should address at least the following key issues:

— **Markets do not reflect the full social and environmental cost of economic activities:** The market does not sufficiently price in negative side effects of greenhouse gas emissions[12] and other negative environmental and social effects of unsustainable economic activities[13] . Hence, many companies and public and private investors have little financial incentive to integrate ESG considerations

[5] Commission, State of the Union: Questions & Answers on the 2030 Climate Target Plan, 2020.

[6] Commission, Sustainable Europe Investment Plan European Green Deal Investment Plan, 2020, footnote on p. 1.

[7] McKinsey & Company, How the European Union could achieve net-zero emissions at net-zero cost, 2020.

[8] Commission, Register of Commission Expert Groups and Other Similar Entities.

[9] Commission, High-Level Expert Group on sustainable finance (HLEG).

[10] Final Report by the High-Level Expert Group on Sustainable Finance, 2018.

[11] EIB and Bruegel, Investment and growth in the time of climate change, 2012.

[12] Final Report by the High-Level Expert Group on Sustainable Finance, 2018, p. 11; p. 88-89.

[13] OECD, Sustainable and Resilient Finance: Making sense of the environmental pillar in ESG investing, 2020.

into their decisions. As noted by the High-level Expert Group, action in the financial system cannot substitute for a strong carbon price signal[14].

— **Lack of sufficient transparency and disclosure on sustainable activities:** The limited sustainability related disclosures in the private and public sector may lead to information asymmetry about the sustainability performance of assets between investors and investees. The lack of harmonisation leaves "green" definitions and criteria open to different interpretation and to "greenwashing". The interest in sustainable investments is growing, but investors lack the reliable and comparable data they need to take informed decisions[15].

— **Some sustainable investments face potentially higher risks and costs of financing:** Changes in the legal, political and technological environment can increase the risks of sustainable investments. In addition, assessing and complying with sustainability standards may generate higher financial costs for sustainable activities[16]. In certain cases, sustainable projects will need public support to be financially viable ("bankable")[17]. For example, climate adaptation projects often require large amounts of up-front finance, lack a steady stream of revenue and provide non-financial benefits beyond the project that are difficult to assess economically.

— **Lack of clarity on sustainable investment needs and available projects:** In certain sectors and areas, investors willing to invest sustainably lack information on sustainable investment needs and available projects. In some cases, the lack of available projects is due to insufficient capacity or know-how on the part of private project developers and public authorities. This is particularly an issue for sustainable infrastructure projects, which are complex to design, finance and implement but are necessary for a transition towards a low-carbon and climate resilient economy[18].

06 The EU has recognised that public intervention is necessary to address these issues. In particular, it has recognised the need for a coherent strategy that combines

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[14] Final Report by the High-level Expert Group on Sustainable Finance, 2018, p. 11.

[15] Commission, Impact assessment accompanying the proposal for a directive on corporate sustainability reporting, 2021.

[16] IMF, Global Financial Stability Report, October 2019, Chapter 6 - Sustainable Finance, 2019.

[17] Final Report by the High-Level Expert Group on Sustainable Finance, 2018, p. 9.

[18] Idem, p. 35.

measures to regulate the financial markets with financial support for sustainable investments. EU regulatory measures aimed at investors, companies and other financial market participants can help redirect private finance towards sustainable investments.

07 The High-level Expert Group formulated recommendations, which formed the basis for the Commission's 2018 "Action Plan: Financing Sustainable Growth"[19] (the Action Plan). The Action Plan comprises ten "actions" (see ***Figure 1***).

[19] Commission, Action Plan: Financing Sustainable Growth, 2018.

Figure 1 – Ten actions of the Action Plan

Action 1: EU taxonomy – create a common system for classifying the sustainability of economic activities and investments

Action 2: Standards & labels – introduce EU wide standards and labels for "sustainable" financial products to help investors identify sustainable investments

Action 3: Investment support – use EU funds to support private sustainable investment, in particular through the InvestEU programme

Action 4: Investment advice – introduce requirements for institutions selling financial products to provide investors with advice about the sustainability of financial products

Action 5: Sustainability benchmarks – devise benchmarks to enable investors to assess the performance of financial products related to sustainable investments

Action 6: Credit ratings – encourage rating agencies and market researchers to better integrate sustainability considerations into the information they provide for investors

Action 7: Investor duties – encourage institutional investors to consider sustainability when making investment decisions and to inform their business and household clients

Action 8: Prudential requirements – explore how to integrate sustainability considerations into the "prudential requirements" that oblige banks and insurance companies to maintain a reserve of safe assets

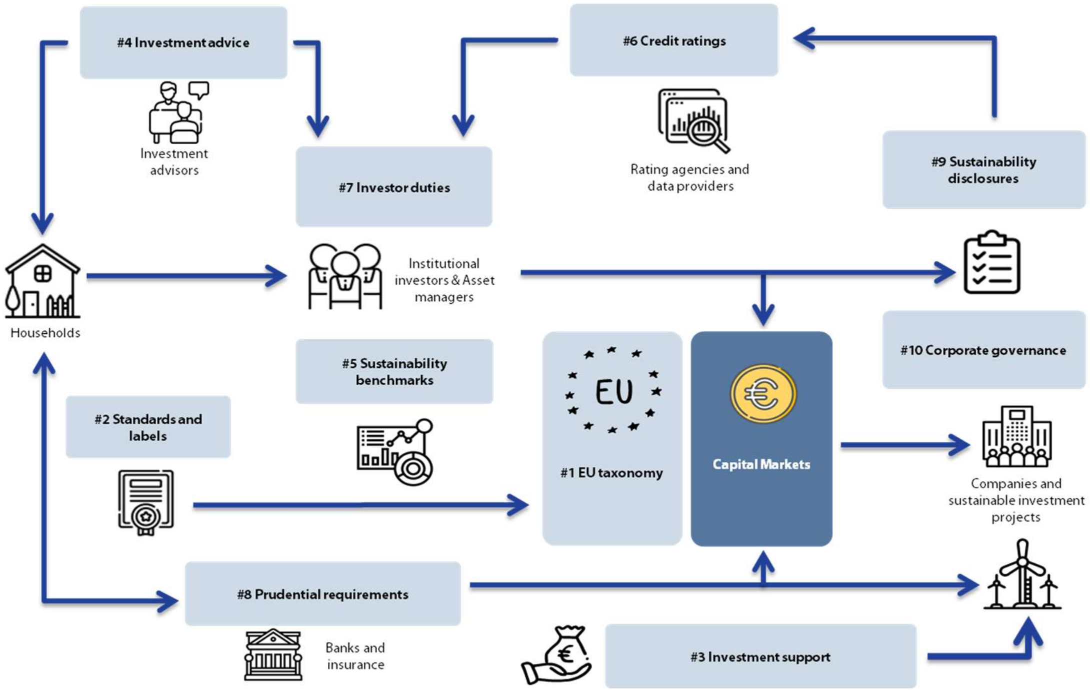
Action 9: Sustainability disclosures – improve corporate reporting on mainly climate-related sustainability issues

Action 10: Corporate governance – strengthen corporate governance to encourage financial actors to take a longer-term and sustainability-oriented perspective

Source: ECA, based on the European Commission.

08 *Figure 2* shows the complexity and interrelation of the different actions proposed by the Action Plan with respect to the main stakeholders involved in sustainable finance.

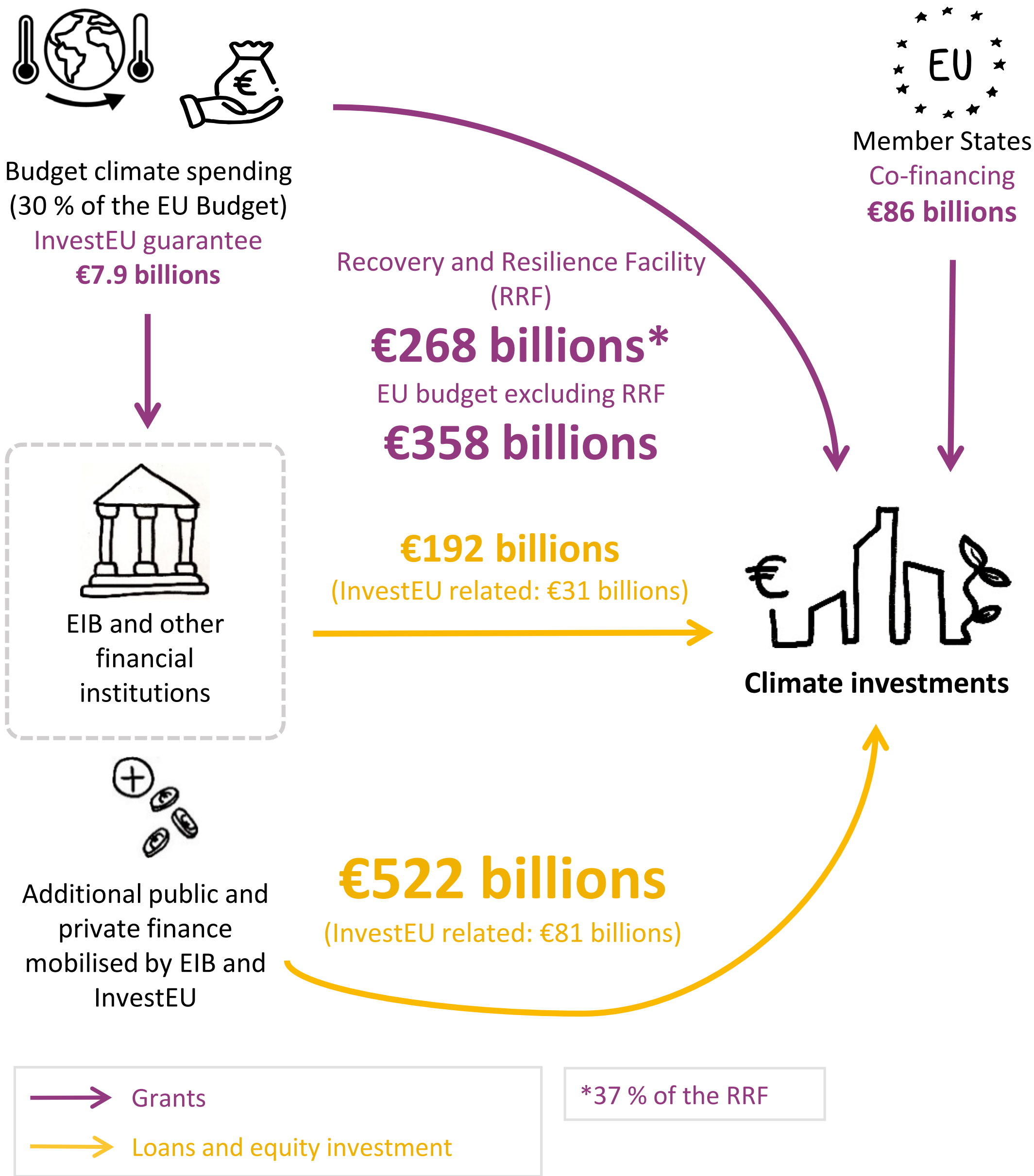
Figure 2 – Stakeholders and the actions of the Action Plan



Source: ECA, based on the European Commission.

09 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. The EU budget part is estimated to be around €358 billion, including the €7.9 billion budgetary guarantee related to InvestEU. In addition, Member States will have to allocate at least 37 % of the funds they receive under the Recovery and Resilience Facility to supporting climate action. This is estimated to be around €268 billion. In parallel, the European Investment Bank (EIB) plans to provide around €192 billion of financing for climate action and environmental sustainability, based on maintaining the overall EIB financing volumes. Both InvestEU and the EIB aim to support additional private and public investment for climate action by other investors of around €522 billion. Overall, EU financial support could help provide over €200 billion per year, in the 2021-2027 period, of the around €1 trillion per year needed (see paragraph ***04***). ***Figure 3*** provides an overview of EU and EIB plans for supporting sustainable investment related to climate action and environmental sustainability during the 2021-2027 period.

Figure 3 – Planned EU support for climate action for 2021-2027



Source: ECA, based on 2021-2027 MFF and EIB Climate bank roadmap.

Audit scope and approach

10 Our objective was to assess whether the Commission has been taking the right action to redirect finance towards sustainable investment. To that end, we assessed whether measures in the Action plan:

(a) address the key issues outlined above (paragraph ***05***), namely:

   (i) the market's failure to reflect the environmental and social costs of unsustainable activities;

   (ii) the lack of transparency on what is sustainable;

   (iii) the higher risks and financial costs of some sustainable investments; and

   (iv) the lack of clarity on sustainable investment needs and available projects.

(b) were implemented as planned.

We also assessed whether EU financial support is based on applying consistent sustainability criteria and contributes to supporting sustainable investment.

11 We note that given the nature, type and timing of the measures in the Action Plan, it is too early to evaluate their effectiveness in redirecting private and public finance to sustainable investments.

12 The report provides a comprehensive overview of the EU actions taken on sustainable finance. It emphasizes the challenges and risks that the Commission has to address to make the sustainable finance strategy successful. Our report is intended to be relevant to the implementation of the 2021 Strategy for Financing the Transition to a Sustainable Economy[20]. As that communication notes, the measures in the 2018 Action Plan laid down the first "building blocks" of the EU sustainable finance framework that will be "finalised and consolidated" under the 2021 Strategy. ***Annex VI*** identifies the actions in the new strategy to which our recommendations are relevant.

[20] Commission, Communication on the Strategy for Financing the Transition to a Sustainable Economy, 2021.

13 Our audit was based on:

— reviewing the Commission's proposals, guidelines and relevant reports on sustainable finance, in particular concerning the EU Taxonomy, the labelling of sustainable financial products, and sustainability disclosures;

— analysing the relevant provisions in the EU legislation in force and regulatory proposals related to the Action Plan and the main EU budget spending programmes for 2014-2020 and 2021-2027 (European Regional Development Fund, Cohesion Fund, Just Transition Fund, Connecting Europe Facility, EFSI/InvestEU, Recovery and Resilience Facility);

— reviewing publications from researchers, think tanks, international organisations and relevant EU bodies and institutions on sustainable finance;

— analysing the portfolio of EFSI investments and reviewing the EIB's application of environmental and social standards based on a random selection of 12 operations contributing to climate action;

— interviews with Commission and EIB officials; and

— written and oral input from external experts used to analyse the audit environment and provide feedback on the draft observations and conclusions.

14 Our audit did not cover actions to promote sustainable finance by the European Central Bank or national authorities. Due to restrictions in connection with the COVID-19 pandemic, we were unable to carry out on-the-spot visits to national authorities and investment projects supported by the EFSI.

Observations

EU actions on sustainable finance were necessary but do not address all key issues

15 In this section of the report, we examine whether the EU actions listed in the Commission's Action Plan address the issues identified in paragraph ***05***, in particular concerning sustainability related transparency and negative externalities. We also analyse the progress made in implementing the different measures of the Action Plan and highlight related risks.

Planned actions rightly focused on improving transparency on what is sustainable

16 We found that seven out of ten of the actions of the Action Plan[21] were aimed at redirecting finance towards sustainable investments by improving transparency concerning the sustainability of economic activities and financial products. The Commission addressed this issue by introducing a common classification system for sustainable activities called the "EU Taxonomy" (Action 1). It is based on the work of the Technical Expert Group (TEG) established for this purpose. The EU Taxonomy provides a basis for the other measures, which require a clear definition of what is "sustainable".

17 To aid investors to identify sustainable investment opportunities, the Commission proposed introducing EU wide standards and labels for sustainable financial products (Action 2); requirements for providing investors with advice about the sustainability of financial products (Action 4); and benchmarks to enable investors to assess the financial performance of sustainable investments (Action 5).

18 The Commission also proposed that rating agencies and market researchers better integrate sustainability considerations into the information they provide for investors (Action 6) and that providers of financial products and financial advisers inform their clients on sustainability related risks linked with investment decisions (Action 7). As regards companies, the Action Plan provided for improving corporate reporting on mainly climate-related sustainability issues (Action 9).

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[21] Actions 1, 2, 4, 5, 6, 7 and 9.

19 In addition to transparency related measures, the Action Plan provided for exploring how best to integrate sustainability considerations into the "prudential requirements" for banks and insurance companies (Action 8) and promoting sustainability and long-term oriented corporate governance (Action 10).

20 Finally, the Commission planned to increase sustainable investment by applying a sustainable finance framework and tools in EU funds, in particular in the EFSI and the InvestEU programme (Action 3). This was the only action that aimed to reduce the risk and cost of sustainable investments and encourage the development of sustainable projects. We cover the EFSI and InvestEU programme in paragraphs ***54-73***.

21 Overall, we found that the Action Plan closely reflected the key recommendations included in the Final Report of the High-level Expert Group (paragraph ***07*** and ***Annex I***). The Commission rightly considered the preparation of the EU Taxonomy (Action 1) as the most important and urgent action.

Measures to reflect the environmental and social cost of unsustainable activities were insufficient

22 We found that the Action Plan was not accompanied by a specific action to address the issue of environmental and social costs of unsustainable activities (see paragraph ***05***) nor did it refer to this underlying issue, despite the importance that the High-level Expert Group attached to this issue in its final report. The Commission is working on a number of measures to better reflect the environmental cost of greenhouse gas emissions and other environmental harm (for example from air pollution, noise or loss of natural capital), which could help redirect finance towards sustainable investment. We provide information on some of these actions in the following paragraphs.

23 As noted in our previous report, carbon prices have to be high enough to provide the right incentives to meet climate action objectives[22]. In 2020 the Commission started work on reforming the EU ETS in order to reach the 55 % reduction target for 2030 and the net-zero greenhouse gas emission target for 2050[23]. Under the EU ETS, companies operating in heavy industries, power and heat generation and commercial

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[22] ECA, The EU's Emissions Trading System: free allocation of allowances needed better targeting, 2020.

[23] Commission, Climate change – updating the EU emissions trading system, 2020.

aviation sector need to obtain emission allowances to cover their excessive carbon emissions[24]. The price of carbon is determined by the demand and supply of these allowances. Some experts have suggested introducing "price corridors" or at least a minimum price of greenhouse gas emissions, to stabilise and gradually increase their market price[25]. Other experts argue that existing market stability measures have been relevant so far, but that reviewing these measures will be necessary in the future[26].

24 The EU ETS currently covers only around 40 % of the greenhouse gas emissions in the European economic area[27]. The rest of the emissions are covered by the EU Effort-Sharing Regulation[28] and Member States are responsible for reducing emissions in sectors, such as transport and buildings – two sectors responsible for increases in emissions[29]. At the time of the audit, 14 EU Member states had announced or implemented some form of carbon tax or pricing mechanism, with significant differences between the sectors covered and the price put on greenhouse gas emissions[30]. According to the European Central Bank, none of these mechanisms allowed for systematically increasing carbon prices to reach national emission reduction targets[31].

25 Without equivalent carbon-pricing arrangement in other countries, the risk is that production will move outside the EU to countries with less stringent climate policies. Such "carbon leakage" may lead to an overall increase rather than a decrease of emissions. To address these issues, the Commission proposed to move forward with a "Carbon Border Adjustment mechanism"[32]. The mechanism would aim to ensure that

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[24] Directive 2003/87/EC on establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.

[25] CERRE, The COVID-19 crisis: a crash test for EU Energy and Climate Policies, 2020.

[26] ERCST(2021) – The Review of the Market Stability Reserve (MSR), 2021.

[27] International Carbon Action Partnership, EU Emissions Trading System (EU ETS), 2021.

[28] Regulation (EU) 2018/842, Effort Sharing Regulation, 2018.

[29] EEA, Trends and projections in Europe 2020, 2020.

[30] Taxfoundation.org, Carbon Taxes in Europe, 2020.

[31] ECB, The implications of fiscal measures to address climate change, 2020.

[32] Section 2.1.1. of COM(2019) 640 final – The European Green Deal.

the price of imports more accurately reflects their carbon content. The Commission plans to publish a proposal for the mechanism in the second quarter of 2021[33].

26 Subsidies for carbon-intensive products also give an advantage to unsustainable activities. For example, some Member States still provide subsidies for fossil fuels, spending on average €55 billion per year subsidising oil, gas and coal production and consumption[34]. The Commission requested Member States to present measures to phase-out fossil fuel subsidies in their National Energy and Climate Plans. According to the Commission[35], thirteen Member States[36] communicated their intentions to introduce plans to phase out fossil fuel subsidies, but only six (Austria, France Germany, Latvia, Lithuania and Spain) have set a timeline for doing so.

Many measures suffered delays and require further steps to become operational

27 The ten actions of the Action Plan are divided into 27 measures with separate deadlines, and were to be finalised by the end of 2019 at the latest (***Annex II***). The Commission has reported on progress against the goals of the Action Plan only in July 2021.

28 We reviewed the nature of the planned measures and their state of implementation up to 7 July 2021. Our review shows that around 18 months after the deadline, 21 measures had been completed and six were still under implementation (including two recurring measures). The implementation of eleven out of 21 completed measures had been delayed compared to the deadlines included in the Action Plan (***Table 1***).

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[33] Commission, Commission Work Programme 2021.

[34] Euractiv, EU countries have 'no concrete plans' to phase out fossil fuel subsidies: report, 2019.

[35] COM(2020) 950 final Annex 2 – Annex – 2020 report on the State of the Energy Union pursuant to Regulation (EU) 2018/1999 on Governance of the Energy Union and Climate Action.

[36] Austria, Belgium, Bulgaria, Germany, Denmark, Greece, Finland, France, Italy, Lithuania, Latvia, Portugal and Spain.

Table 1 – Implementation of the Action Plan measures up to July 2021

Actions			Measures	
Objective 1: Reorient capital flow towards sustainable investment				
1	Establish an EU Taxonomy of environmentally sustainable activities	✓	(1)	Proposal on the Taxonomy Regulation
		✓	(2)	EU Taxonomy criteria for climate change mitigation and adaptation
		✗	(3)	EU Taxonomy criteria for other environmental objectives
2	Create standards and labels for green financial products	✓	(4)	TEG report on green bond standard
		✗	(5)	Delegated act on the content of the prospectus for green bond issuances
		✓	(6)	Assessment of applying EU Ecolabel to financial products
3	Fostering investment in sustainable projects	↻	(7)	Improve the efficiency and impact of instruments aiming at sustainable investment support
4	Incorporate sustainability in providing investment advice	✓	(8)	Delegated acts on client's sustainability preferences for investments in case of investment firms and insurance distributors
		✓	(9)	ESMA guidelines for investment advisors and portfolio managers
5	Develop sustainability benchmarks	✓	(10)	Delegated act on the ESG factors in the benchmark methodology
		✓	(11)	Creation of Climate-transition benchmark and Paris aligned benchmark
		✓	(12)	TEG report on benchmarks
Objective 2: Mainstreaming sustainability in risk management in finance				
6	Better integrate sustainability in ratings and market research	✗	(13)	Commission's progress report on the actions involving credit rating agencies
		✓	(14)	ESMA assessment of the current practices in the credit rating market; ESMA guidelines on ESG disclosure for credit rating agencies
		✓	(15)	Study on sustainability ratings and research
7	Clarify institutional investors' and asset managers' duties	✓	(16)	Commission proposal of the regulation on sustainability-related disclosures in the Financial Services Sector
8	Incorporate sustainability in prudential requirements	✓	(17)	Analyses and potential calibration of capital requirements for banks
		✓	(18)	EIOPA's opinion on how insurers can contribute to identify, measure and manage risks relating to climate change

Actions		Measures	
Objective 3: Foster transparency and long-termism in financial and economic activity			
9	Strengthen corporate sustainability disclosure	(19)	Commission's conclusions on the current state of rules (fitness check) on public corporate reporting
		(20)	Revision of the guidelines on non-financial information as regards climate-related information
		(21)	Commission proposal of the regulation requiring asset managers and institutional investors to disclose how they consider sustainability factors in investment decisions process
		(22)	Establishing a European Corporate Reporting Lab at European Financial Reporting Advisory Group (EFRAG)
		(23)	*Recurring measure: Commission's systematic request to EFRAG to assess the impact of new IFRS on sustainable investments*
		(24)	Commission request to EFRAG to explore alternative fair value measurement for long-term investment portfolios
		(25)	Commission report on the impact of IFRS 9 on long-term investments
10	Fostering sustainable corporate governance and attenuating short-termism in capital markets	(26)	Assessment of possible ways to promote sustainable corporate governance
		(27)	Report on undue short-term pressure by ESMA, EBA and EIOPA

Implemented on time — Implemented with delay — Not yet implemented — Recurring

Source: ECA.

29 We found that the Commission did not set indicators for monitoring and reporting on the achievements of the Action Plan measures. This is particularly important as the success of the Action Plan depends on the take up of measures which are voluntary (***Annex II***). Without such indicators, it will not be possible to monitor progress and evaluate the performance of any EU strategy for redirecting finance towards sustainable investments.

The EU Taxonomy has been delayed and outstanding issues need to be resolved before it can be fully deployed

30 Before the Commission proposed the EU Taxonomy, some Member States had tried to mitigate the risk of greenwashing by developing their own taxonomies, leading to a range of different labels and standards[37]. Outside the EU, some countries are working on their own sustainable finance taxonomies, in certain cases inspired by the EU's work[38]. The EU Taxonomy was conceived as a system for classifying the sustainability of economic activities based on scientific evidence. It is designed primarily to be applied by issuers of securities and bonds, institutional investors, asset managers, and other financial market participants offering financial products in the EU as well as by central banks[39] (***Box 1***). In addition, public authorities may use it to classify the sustainability of their activities.

Box 1

ECB policy aims to support the use of EU Taxonomy aligned bonds

The European Central Bank decided that from 1 January 2021 bonds with coupons linked to the EU Taxonomy or to certain Sustainable Development Goals will become eligible as collateral (assets that secure debt)[40]. This measure could support the take up of EU Taxonomy compliant bonds, if the bonds have a taxonomy linked key performance indicator[41].

31 The Commission decided to introduce the EU Taxonomy through an EU regulation establishing the framework and a series of legal acts, adopted by the Commission, specifying further the EU Taxonomy criteria for screening the environmental sustainability of economic activities. The EU Taxonomy outlines six environmental objectives (***Figure 4***). The sustainable activities have to substantially contribute to at least one of them and not cause any significant harm to any of the other five environmental objectives.

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[37] European Parliament, Sustainable finance – EU Taxonomy.

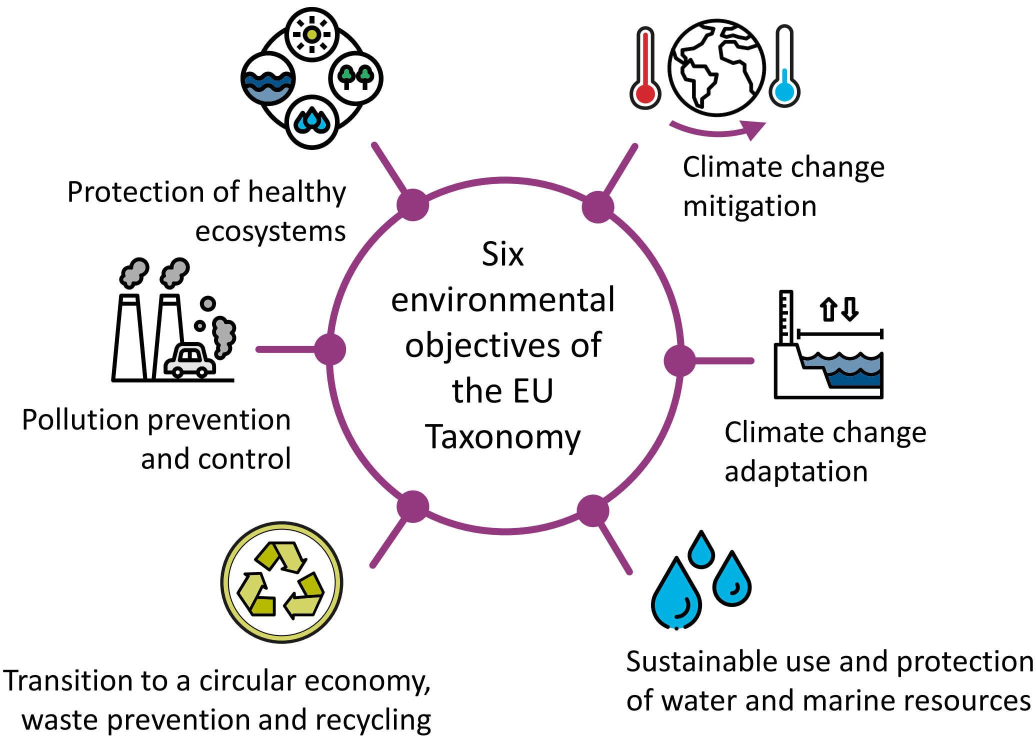
[38] International Platform on Sustainable Finance, Annual Report, October 2020.

[39] TEG, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, 2020, pp. 26-50.

[40] ECB, ECB to accept sustainability-linked bonds as collateral, 2020.

[41] Fitch Ratings, ECB's Green Bonds Buying to Boost Eligible Issuers' Liquidity, 2020.

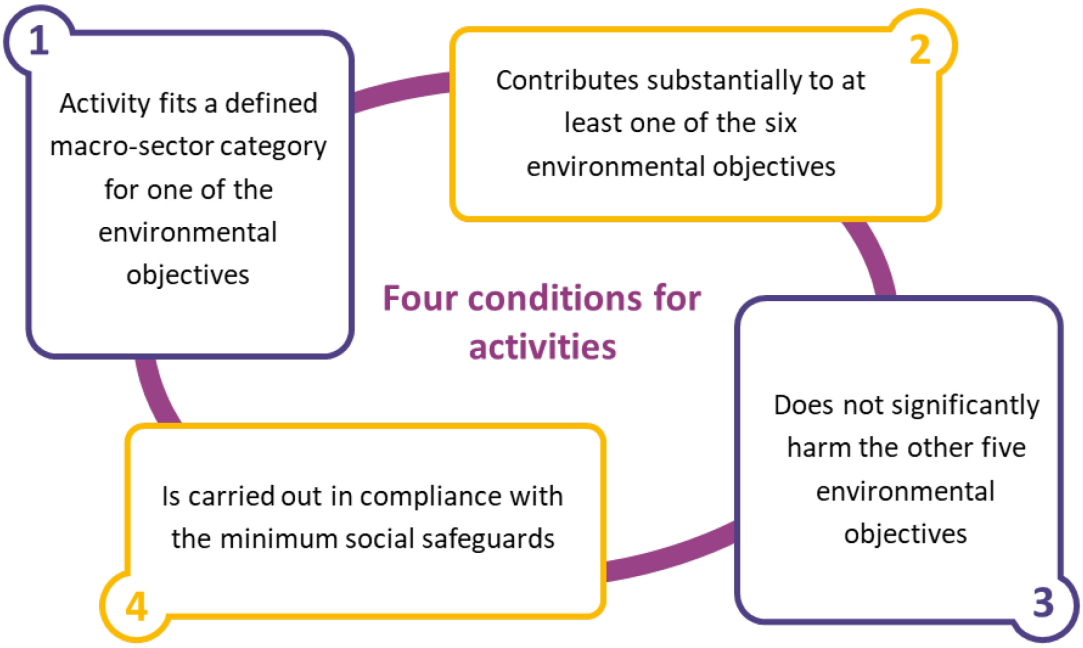
Figure 4 – Six environmental objectives of the EU Taxonomy



Source: ECA.

32 In order to qualify as environmentally sustainable under the Taxonomy Regulation, an economic activity must meet the four conditions presented in ***Figure 5***.

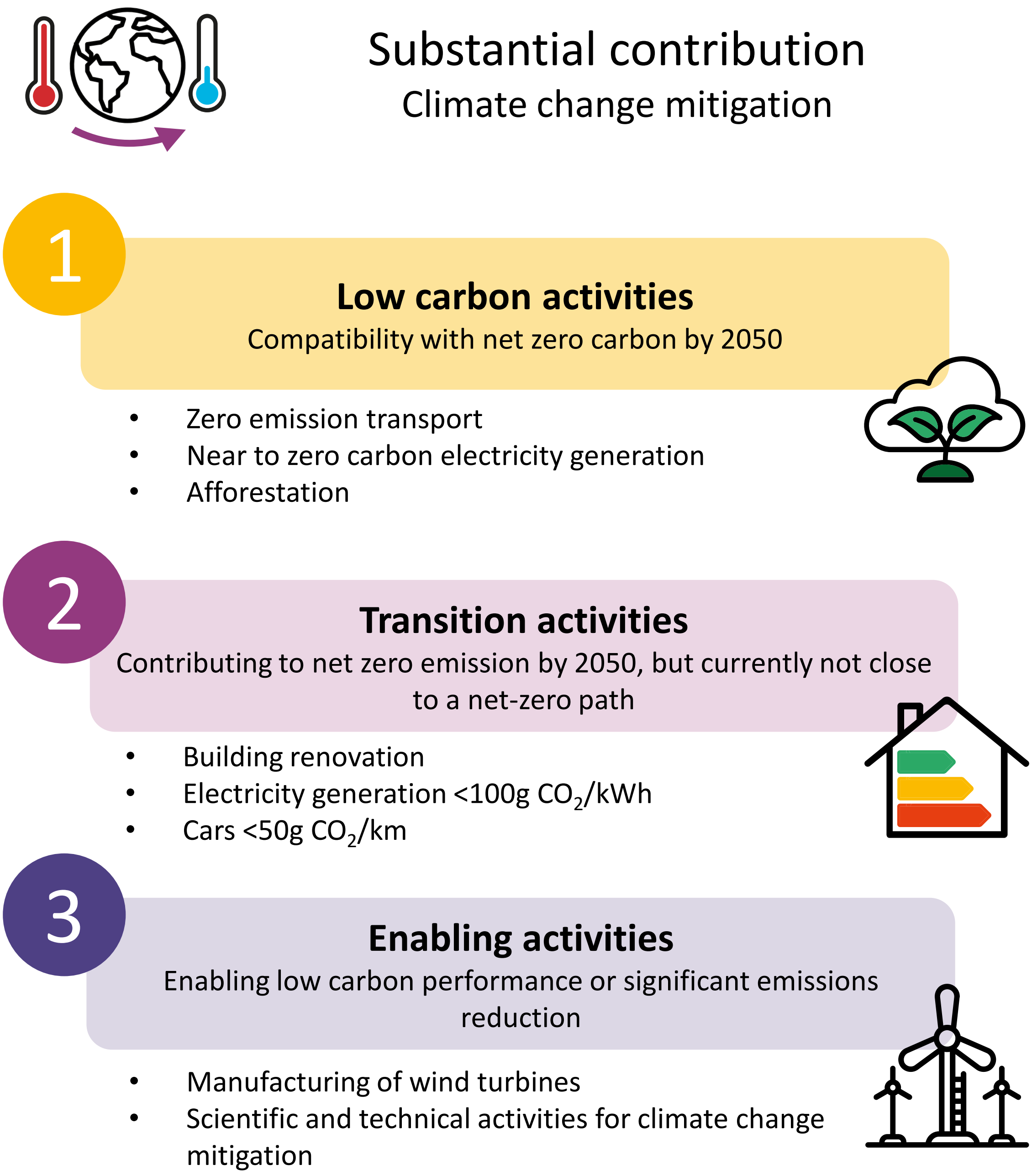
Figure 5 – Four conditions for an activity to qualify as environmentally sustainable



Source: ECA.

33 The list of EU taxonomy covered activities may change over time. The Taxonomy Regulation recognises the need for a regular revision of the list of activities and their related criteria to reflect regulatory changes and technological developments. ***Figure 6*** below shows an example of the EU Taxonomy aligned activities substantially contributing to climate change mitigation.

Figure 6 – Activities considered by the EU Taxonomy as substantially contributing to climate change mitigation



Source: ECA.

34 We found that the development of the EU Taxonomy has suffered considerable delay. Although the Taxonomy Regulation was proposed as planned by the Commission in May 2018, it was not adopted by the EU co-legislators until June 2020. The delay concerning the EU Taxonomy also affects the implementation of other measures of the Action Plan that require a clear definition of what is "sustainable", in particular sustainability related disclosures and financial product labels. In June 2021, the Commission adopted the legal act on the EU Taxonomy criteria for climate change mitigation and adaptation, with a view to it entering into force from January 2022. As regards the other four environmental objectives outlined in the EU Taxonomy, the Commission appointed a new group of experts (the “Platform on sustainable finance”[42]) to prepare a proposal by the end of December 2021 with a view to the acts entering into force in January 2023. The Platform will also provide a report to the Commission on extending the EU Taxonomy to social objectives and compliance with minimum social safeguards[43]. In addition, the Commission also consults the Member States Expert Group, which brings together experts from the 27 EU countries. ***Annex IV*** summarises the EU Taxonomy timeline.

35 Both our analysis and stakeholder feedback[44] highlight that the sustainability of some important activities and technologies with significant environmental impact remains to be determined, for example agriculture, the production of electricity from natural gas[45] and nuclear energy (***Box 2***).

[42] Commission, Platform on sustainable finance.

[43] Commission, Platform on sustainable finance, Technical work: Subgroups.

[44] Commission, Feedback received on: Sustainable finance – EU classification system for green investments.

[45] Commission, Delegated Regulation supplementing Regulation (EU) 2020/852 by establishing the technical screening criteria for substantial contribution criteria to climate change mitigation or climate change adaptation, 2021.

Box 2

EU Taxonomy and nuclear energy

The Technical Expert Group developing the EU Taxonomy criteria found evidence of the potential contribution nuclear energy could make to reducing emissions. However, **the experts were not able to conclude that nuclear energy did not cause significant harm to other environmental objectives**. They recommended additional technical work on the "do no significant harm" aspects of nuclear energy before including it in the EU Taxonomy[46]. On 29 March 2021 the Joint Research Centre (JRC) issued a detailed technical assessment of nuclear energy with respect to the 'do no significant harm' criteria of the Taxonomy Regulation[47], which the Commission is following up.

36 We found the risk that the EU Taxonomy will not be as effective in supporting the EU's commitment to reach net-zero emissions by 2050[48] if the delegated acts weaken the science-based criteria proposed by the Technical Expert Group[49]. In particular, we noted that the 2020 Commission's proposal[50] contradicted the Technical Expert Group's proposal by classifying certain gas-fuelled power plants as sustainable without requiring them to reach net-zero emissions by 2050 as proposed by the experts. The Commission temporarily excluded the EU Taxonomy criteria for gas fuelled power plants from the draft delegated act published in April 2021 and plans to include them later in 2021[51].

37 The contribution of the EU Taxonomy and labelling schemes to redirecting private finance towards sustainable investments will also depend on its future development. According to the Taxonomy Regulation, the EU Taxonomy may in future provide criteria to identify activities that significantly harm the environment ("brown

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[46] TEG, Taxonomy Report: Technical Annex, 2020.

[47] JRC, Technical assessment of nuclear energy with respect to the 'do no significant harm' criteria of Regulation (EU) 2020/852 ('Taxonomy Regulation'), 2021.

[48] TEG, Taxonomy: Final report of the Technical Expert Group on Sustainable Finance, 2020, p. 53.

[49] Letter from 123 scientists, How will the European Union's Green Deal protect our future if its definitions of Greenness are not aligned with its own ambition of net zero greenhouse gases by 2050?

[50] Commission, EU classification system for green investments, 2020, Annex I, p. 112.

[51] Commission, Sustainable finance package, 2021.

taxonomy”), as well as criteria concerning other sustainability objectives, including social ones (“social taxonomy”)[52]. The voluntary take up may prove challenging as, to date, the volume of the Taxonomy Regulation and delegated acts exceeds 500 pages[53] for only two out of six environmental objectives. The Commission is developing digital tools to facilitate the use of the EU Taxonomy and sustainability reporting[54].

The Commission has made some progress towards improving information for investors about sustainable finance opportunities

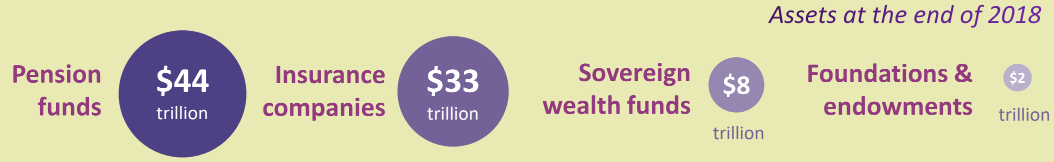
38 Actions 2, 4 and 5 of the Action Plan are aimed at creating tools to inform investors about sustainable finance opportunities and make use of the EU Taxonomy. Such tools may incentivise institutional investors, such as pension funds, to redirect finance towards sustainable investment (***Box 3***).

Box 3

Pension funds have significant potential for long-term sustainable investments

Pension funds, which are often quasi-public entities, play an in important role in the market for sustainable finance. They have particular potential for investing large amounts of assets for the long term[55].

Assets at the end of 2018



The Fjärde AP-Fonden (AP4) in Sweden is an early example of a pension fund that has been pursuing a low-carbon investment strategy. According to its Annual Report 2020, the CO_2 emissions of its listed equity portfolio have decreased since 2010 by 48 %. AP4’s target is to further cut emissions from the current level in half and to have net-zero emissions by 2040 at the latest.[56]

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52 Taxonomy Regulation, Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment and amending Regulation (EU) 2019/2088, recital 59.

53 Commission, Delegated act setting up the EU Taxonomy criteria for climate change, 2021.

54 Commission, EU Taxonomy Compass.

55 IRENA, Mobilising Institutional Capital for Renewable Energy, 2020.

56 Fjärde AP-Fonden, Annual report 2020, 2021.

39 The action “Creation of standards and labels” (Action 2) deals with the problem that some financial products are marketed as “sustainable” and “green”, even though they cause significant harm to the environment. The risk of such “greenwashing” has been one of the main concerns of institutional investors and their clients willing to invest sustainably and one of the main reasons for the creation of diverse labels such as the TEEC Label in France, the FNG Siegel in Germany and LuxFLAG in Luxembourg[57].

40 In 2019, the Technical Expert Group recommended the creation of a voluntary EU Green Bond Standard based on the EU Taxonomy criteria[58] to reduce the risk of greenwashing and promote cross-border investments. The Commission presented the proposal on an EU green bond standard on 6 July 2021[59]. At the moment, despite the EU leading the issuance of green bonds, its market value remains low (***Box 4***). The Commission also plans to borrow up to €250 billion through issuing green bonds to finance the Recovery and Resilience Facility (RRF)[60].

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[57] European Parliament, Sustainable finance – EU Taxonomy.

[58] TEG, Report on EU Green Bond Standard, 2019.

[59] Commission, Proposal for a standard for European green bonds, 2021.

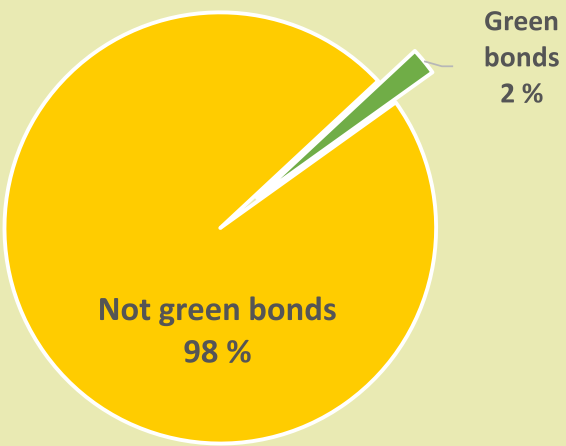
[60] Commission, Presentation of the NextGenerationEU – Funding strategy to finance the Recovery Plan for Europe, 2021.

Box 4

The EU has the leading "green bond" market but its value remains low

In 2007, the Luxembourg Stock Exchange listed the very first green bond to enter the market: European Investment Bank's "Climate Awareness Bond"[61]. In 2020 Europe was responsible for $156 billion or 48 % of the total global green debt issuances. The entities from the 27 EU Member States had a total of $21 trillion of bonds outstanding, out of which, at the end of 2020, green bonds[62] amounted to $422 billion or only 2 %[63]. Despite the growth of issuances, green bonds remain a marginal financial product in the EU.

Share of green bonds in the total outstanding bonds of EU 27 entities at the end of 2020



Source: ECA.

41 As regards other financial products (i.e. investment funds, life insurance products and deposits), the Joint Research Centre has prepared draft criteria to link the use of the EU Ecolabel with the EU Taxonomy[64]. The Commission plans to adopt these criteria by the beginning of 2022.

[61] Luxembourg Stock Exchange, A pioneer in green finance, 2021.

[62] Classified as "green" by the bond issuer.

[63] Climate Bonds Initiative, Sustainable Debt Global State of the Market 2020, 2021.

[64] Commission, Retail financial products; and Commission and Climate & Company and partners, Testing draft EU ecolabel criteria on UCITS equity funds, 2020.

42 As regards the practical use of the EU Taxonomy for financial product standards and labels, there are still many uncertainties on how to prove compliance with the EU Taxonomy. This issue was raised by the Commission in its 2020 public consultation on the renewed sustainable finance strategy[65]. Stakeholders overall agreed that verifiers of EU green bonds should be subject to authorisation at EU level. Concerning the EU Ecolabel for financial products, it is also still not clear what role, for example, the Commission or the European Supervisory Authorities will have in supervising the Competent Bodies certifying the use of the EU Ecolabel that is linked with the EU Taxonomy.

43 Standards and labelling are not the only way to encourage investors to invest sustainably. The European Securities and Markets Authority recommends taking account of sustainability considerations when providing investment advice as a good practice[66]. The Commission's delegated regulations requiring compulsory consideration of retail client's sustainability preferences in financial advice (Action 4), planned for the second quarter 2019, were adopted by the Commission in April 2021[67].

44 The Commission's Technical Expert Group considered that investors lack reliable low-carbon indexes that would, for example, inform them about returns from investments aligned with the Paris Agreement[68]. In 2019, based on the expert group's report on climate benchmarks[69], the Commission created an "EU Paris-aligned" climate index as well a "EU Climate Transition" index[70] (Action 5).

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[65] Commission, Summary Report of the Stakeholder Consultation on the Renewed Sustainable Finance Strategy, 2020.

[66] ESMA, Guidelines on certain aspects of the MiFID II suitability requirements, 2018.

[67] Commission, Sustainable finance – obligation for insurance firms & brokers to advise clients and social environmental aspects.

[68] TEG, Interim Report on Benchmarks, 2019, p. 11.

[69] TEG, TEG Final Report on Climate Benchmarks and Benchmarks' ESG Disclosures, 2019.

[70] Regulation (EU) 2019/2089 on the EU Climate Transition Benchmarks, EU Paris-aligned Benchmarks and sustainability-related disclosures for benchmarks.

The exposure of private sector to sustainability risks will remain unclear until the new EU disclosure requirements become fully applicable

45 In order to improve the existing sustainability disclosure requirements, the Commission aimed to set up a new EU-level framework for the financial sector and corporates through actions 7 and 9. Investors and supervisors in the financial sector still lack information on the exposure of different entities to sustainability risks and of the environmental and social impacts of investments. This lack of information inhibits sustainable investment and risks resulting in stranded assets. In addition, it prevents stakeholders and civil society to hold companies to account for causing harm to the environment and society[71].

46 Important national initiatives addressing this issue preceded EU level action. For example, the 2015 French Energy Transition for Green Growth Act[72] required institutional investors to disclose the climate impacts of their investments and to measure their exposure to climate risks. At the multinational level, the Financial Stability Board created the Task Force on Climate-related Disclosures[73]. In 2017, the task force recommended that financial and non-financial actors should disclose climate related financial information concerning their governance, strategy, risk management and targets[74]. In 2019, the Commission incorporated the task force's recommendations in its guidelines on climate-related disclosure within the Non-Financial Reporting Directive[75] but these guidelines were not mandatory and information reported remains uneven (see further paragraph ***48***).

47 The EU regulation introducing sustainability disclosure obligations specifically for the financial services sector (SFDR)[76] (Action 9) was adopted in 2019, four years after the pioneering requirements of the French national law. To become fully operational,

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[71] European Commission, Impact assessment accompanying the proposal for a directive on corporate sustainability reporting, 2021.

[72] Ministère de la transition écologique, Le reporting extra-financier des investisseurs, 2019.

[73] Task Force on Climate-related Financial Disclosures (TCFD), 2020 Status Report, 2020.

[74] TCFD, Final Report, Recommendations of the Task Force on Climate-related Financial Disclosures, 2017.

[75] Official Journal C 209/1, 20.6.2019 – Guidelines on non-financial reporting: Supplement on reporting climate-related information.

[76] Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.

the Commission still needs to adopt the technical standards[77]. According to the regulation, Member States shall ensure that the competent authorities have all the necessary supervisory and investigatory powers to monitor the compliance of financial market participants with the disclosure requirements. We found that, so far, the Commission has not provided Member States sufficient guidelines on how to supervise the application of the SFDR requirements.

48 In order to strengthen the corporate sustainability disclosure not solely for financial institutions (Action 9), the Commission planned to address the weaknesses of the Non-Financial Reporting Directive (NFRD) by issuing a new proposal. At present, only certain large companies over 500 employees are covered by the directive and audit of the disclosures is not mandatory[78]. In our 2019 review on sustainability reporting[79], we reported that some Member States went beyond the directive by extending its scope and/or requiring external audit of non-financial information.

49 In April 2021, the Commission published a legislative proposal for a Corporate Sustainability Reporting Directive which amends the Non-Financial Reporting Directive. According to the Commission, this proposal would cover approximately 49 000 publicly listed companies compared to around 11 700 currently; it foresees the development of European non-financial reporting standards supported by the European Financial Reporting Advisory Group and supports standardisation initiatives at global level built on the work of the Task Force on Climate-related Financial Disclosures[80]. The proposal also addresses a key challenge that our 2019 review on sustainability reporting identified: the involvement of auditors. It provides for external audit to provide limited assurance on the sustainability disclosures. According to the Commission, providing reasonable assurance, as required for financial reports, is not yet feasible due to the lack of relevant audit standards[81]. Neither the Taxonomy Regulation nor the Non-Financial Reporting Directive require non-corporate public sector bodies to report on

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[77] ESAs, Final Report on draft Regulatory Technical Standards, 2021.

[78] Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups.

[79] ECA, Reporting on sustainability – A stocktake of EU Institutions and Agencies, 2019.

[80] Task Force on Climate-related Financial Disclosures.

[81] Commission, Questions and answers: Corporate Sustainability Reporting Directive proposal, 21 April 2021.

the sustainability of their activities, unless such companies have been defined as Public Interest Entities by Member States.

50 As regards financial reporting, no change in the international accounting standards has taken place yet to accommodate issues raised due to climate change and to address calls from investors[82]. The International Accounting Standards Board has, however, issued educational material on how reporting companies should address climate related matters under the current body of International Financial Reporting Standards.

Measures to favour longer term investment are still preparatory and no legislative proposals have been presented

51 The Commission measures under Action 10 focused on identifying the causes of short-termism in the financial sector.

52 The Action Plan includes three other actions, which may encourage long-term sustainable investment. They comprised better integration of sustainability in ratings and market research (Action 6); incorporating sustainability in prudential requirements (Action 8) and exploring alternative accounting treatments for long-term investment portfolios (a measure within Action 9). These actions consist of studies, analyses, consultations and considerations of possible solutions. More detailed information on each action is included in ***Annex III***.

53 The High-level Expert Group on Sustainable Finance noted in its final report that the International Financial Reporting Standard 9[83] (IFRS 9) is seen by many companies as having a negative impact on long-term financing of equity investments. In the Action Plan, the Commission committed to report by the end of 2018 on the impact of IFRS 9 on long-term investments. To date, the Commission has not prepared such a report. Amending IFRS 9 depends on a decision of the International Accounting Standards Board (IASB) which is independent of the European Union. The Commission has made its concerns known to the IASB. The issue is currently not considered by the Commission to be urgent as the companies that are potentially most affected (insurance undertakings) can opt to defer the application of IFRS 9 until 2023[84].

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[82] Final Report by the High-Level Expert Group on Sustainable Finance, 2018, p. 57.

[83] https://www.ifrs.org/issued-standards/list-of-standards/ifrs-9-financial-instruments/

[84] Commission, Fitness Check on the EU framework for public reporting by companies, April 2021.

EU financial support for investments is not based on consistent sustainability criteria

54 In this section we assess whether the Action Plan addressed the issues of higher risks and costs for some sustainable investments and the lack of available sustainable projects (see paragraph ***05***). In addition, we examine the EU's application of sustainable finance good practices for the 2014-2020 MFF and the 2021-2027 MFF. We outline: (a) the role of the EIB in climate action and environmental sustainability financing; (b) how EFSI supported and how InvestEU is expected to support and cover areas where sustainable investment is most needed; and (c) arrangements for assessing the sustainability of investments funded by EU grants.

The EIB has been playing an important role in sustainable finance

55 In our examination of EFSI support for sustainable investments we looked at the role that the EIB plays in sustainable finance. First, we checked whether the EIB provides finance on favourable terms to sustainable projects. Second, we verified whether the EIB helps reduce the risks and cost of sustainable investments for other investors. Third, we also looked at other ways the EIB promotes the use of sustainable finance principles.

The EIB provides finance for climate action projects on favourable terms

56 In 2012-2020 period, the EIB reported €197 billion of financing that supported €670 billion of investments in projects that protect the environment, reduce greenhouse gas emissions and help countries adapt to the impacts of climate change[85]. The EIB aims to increase the share of financing for climate action and environmental sustainability to 50 % by 2025, which is projected to result in EIB financing of €292 billion in the 2021-2030 period. The EIB Group objective is to support €1 trillion of investment in climate and environment in this period[86] (***Table 2***). Investment supported includes contributions from EFSI and InvestEU and the climate action and environmental sustainability financing provided by the European Investment Fund (EIF)[87], together with other private and public co-financing of the supported projects. The EIB has not published a more detailed breakdown by climate and environmental objective for its projections. As regards EFSI supported financing, the EIB offered

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[85] EIB Group, Climate and Environmental Sustainability.

[86] EIB Group, Climate Bank Roadmap 2021-2025, 2020.

[87] EIF, EIF Operational Plan 2021-2023, p. 11.

financing often on better terms and conditions (such as more favourable interest rate or longer repayment period) than a borrower would have been able to obtain on the market.

Table 2 – EIB financing and investment supported for climate and environment (*in billion euros*)

Period	2012-2020	2021-2030 (estimated)
EIB		
Total financing in the period	599	630**
Financing for climate and environment	197*	292**
Out of which EFSI/InvestEU climate action	*19*	*23***
EIF		
Total financing in the period	84	100**
Financing for climate and environment	Not tracked	10**
EIB and EIF		
Total investment supported for climate and environment (including EFSI/InvestEU and other private and public co-financing)	670*	1 000

* Tracking and reporting in 2012-2020 period was undertaken for climate action only, which accounted for €171 billion in this period. Total climate and environment data includes estimated volumes for environmental protection, not using a formal tracking system and definitions, which will be applied from 2021.

** Estimated by ECA, using the same figures as used in the EIB and EIF Corporate Operational Plans targets for 2021-2023.

Source: ECA, on the basis of EIB Group.

The EIB checks compliance with environmental and social standards

57 We examined the EIB environmental and social due diligence procedures that applied to EFSI operations in order to assess how the EIB makes sure that the EFSI projects are sustainable. We checked how these procedures were applied in practice for a selection of 12 EFSI projects.

58 We found that for investments with a significant environmental and social impact, the EIB assesses compliance with its environmental and social standards which form a contractual condition for receiving financing[88]. The EIB also assesses the resilience of projects to climate change, and may require projects to be modified in order to limit their climate related risks (paragraph ***02***).

59 When reviewing the EIB due diligence procedures, we found that the EIB estimates the amount of potential greenhouse gas emissions[89] and uses a "shadow carbon price" to factor into the project cost the external negative effects of the emissions[90]. This effectively reduces the economic viability of projects with higher emissions and reduces their chances of being financed by the EIB.

60 In the EFSI investments in funds that we examined, the EIB was often in the initial group of investors. Due to its robust due diligence procedures, the EIB's early involvement can signal to other potential investors that the fund is likely to invest in viable and sustainable projects. This could reduce their due diligence costs and increase their investment.

61 As regards transparency and disclosure, the EIB reports on a project's fulfilment of the contractual environmental and social conditions when the project has been completed. The EIB was not required to publicly report on the actual climate and environmental results on the level of the projects underlying the completed EFSI operations. The EIB does not publish the list of underlying projects it supports through its investments in funds, therefore the environmental or social performance of these projects is not disclosed.

The EIB promotes sustainable finance through dialogue with investors on applying sustainability criteria

62 Finally, the EIB promotes sustainable finance by encouraging other public and private investors to adopt sustainable finance good practices. We already reported on its positive role in the development of common principles for tracking climate

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[88] EIB, Environmental and Social Standards, 2018.

[89] EIB, Methodologies for the Assessment of Project GHG Emissions and Emission Variations, 2020.

[90] EIB, EIB Group Climate Bank Roadmap, Annex V, 2020.

finance[91] and here we consider its role in carrying out environmental and social due diligence.

63 We found that, in applying sustainability criteria to projects, the EIB enters into a dialogue with the other investors, companies and public authorities involved. In this way, the EIB encourages greater acceptance for stronger climate and environmental standards. The EIB is updating its due diligence procedures and has updated its climate tracking methodology to take account of the EU Taxonomy criteria[92]. This should support the uptake of the EU Taxonomy.

EFSI support did not cover all areas where sustainable investment is most needed

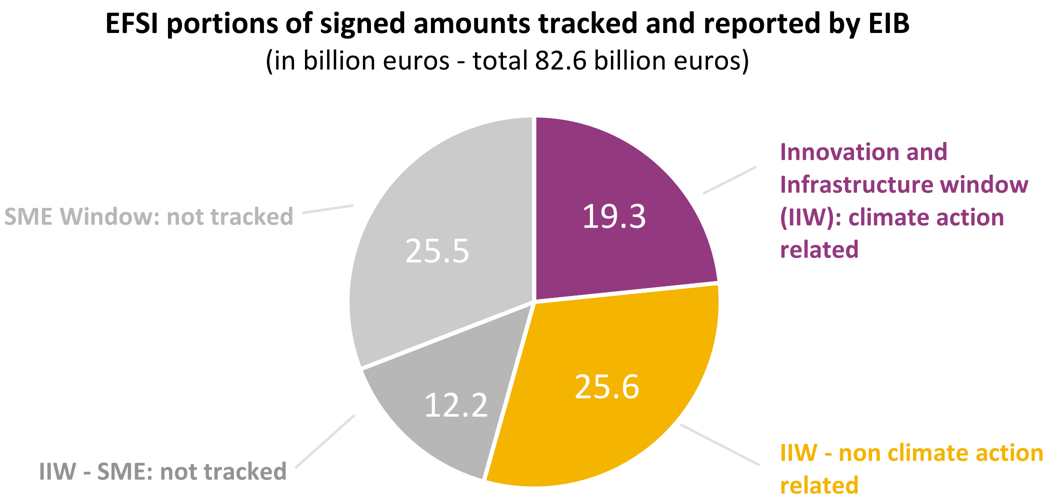
EFSI supported little sustainable investment in Central and Eastern Europe

64 We analysed the EFSI portfolio's contribution to climate objectives in the period 2015-2020. Our analysis was limited by the fact that climate tracking information does not cover SMEs related investments that make up 45 % of the portfolio (***Figure 7***). This is because the EFSI regulation did not provide for such monitoring and reporting.

[91] ECA, Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, 2016.

[92] EIB Group, Climate Bank Roadmap 2021-2025, 2020, p. xii.

Figure 7 – Proportion of EFSI financing that is tracked and reported for climate action



Source: ECA based on EIB data.

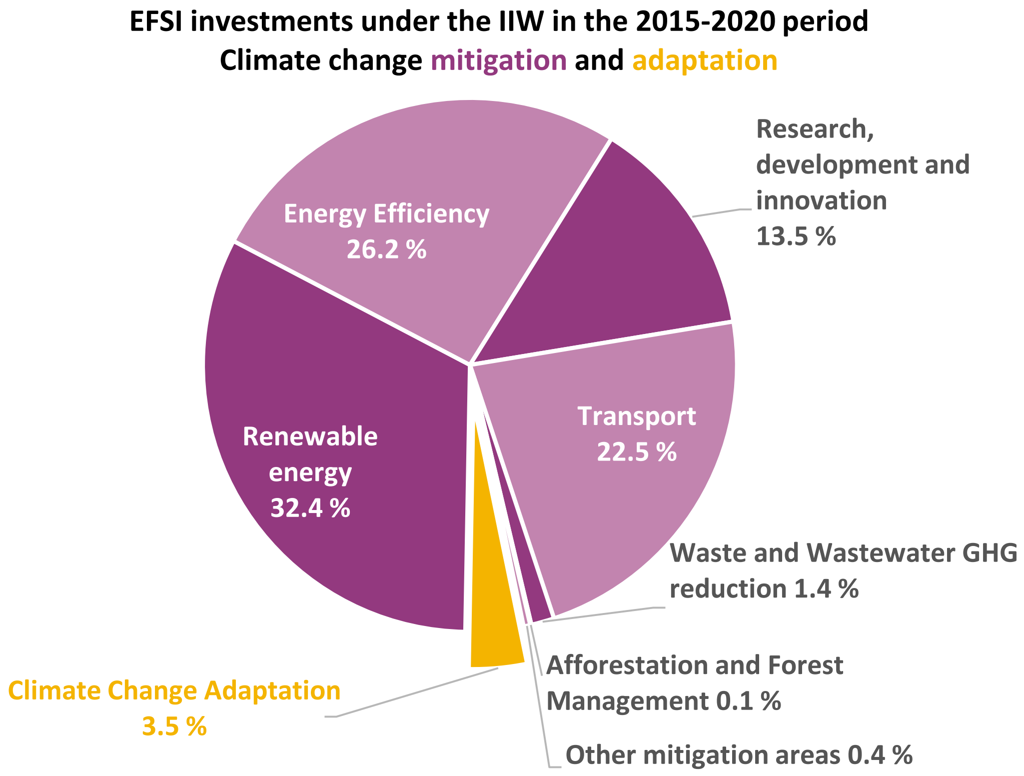
65 Under the 2021-2027 MFF, climate tracking for the InvestEU programme will include SMEs. In addition, the InvestEU implementing partners can use the EU Taxonomy criteria for determining substantial contribution to the environmental objectives. In addition, the Commission introduced relevant key performance indicators to measure the climate and environmental performance of sustainable infrastructure projects, such as annual greenhouse gas emission reductions[93]. This will improve the information on the InvestEU's contribution to climate action and environment as compared to EFSI. However, the reporting arrangements do not include actual climate and environmental results of completed operations at the underlying project level and the use of the EU taxonomy criteria is only optional, as implementing partners may use the EU climate tracking or other agreed methodology instead.

66 In the 2015-2020 period, we found that the climate action related EFSI guarantees almost exclusively supported investments to mitigate climate change (***Figure 8***). Out of the €19.4 billion of climate action investments financed, 32.4 % related to renewable energy, consisting mainly of solar and wind power installations. A further 26.2 % financed energy efficiency investments consisted mainly of financing for building renovation and combined heat and power installations. Only 3.5 % related to

[93] Regulation (EU) 2021/523 establishing the InvestEU Programme and amending Regulation (EU) 2015/1017.

climate adaptation, which may reflect the specific difficulties in preparing bankable adaptation investments (paragraph *05*).

Figure 8 – EFSI Financing by climate action categories



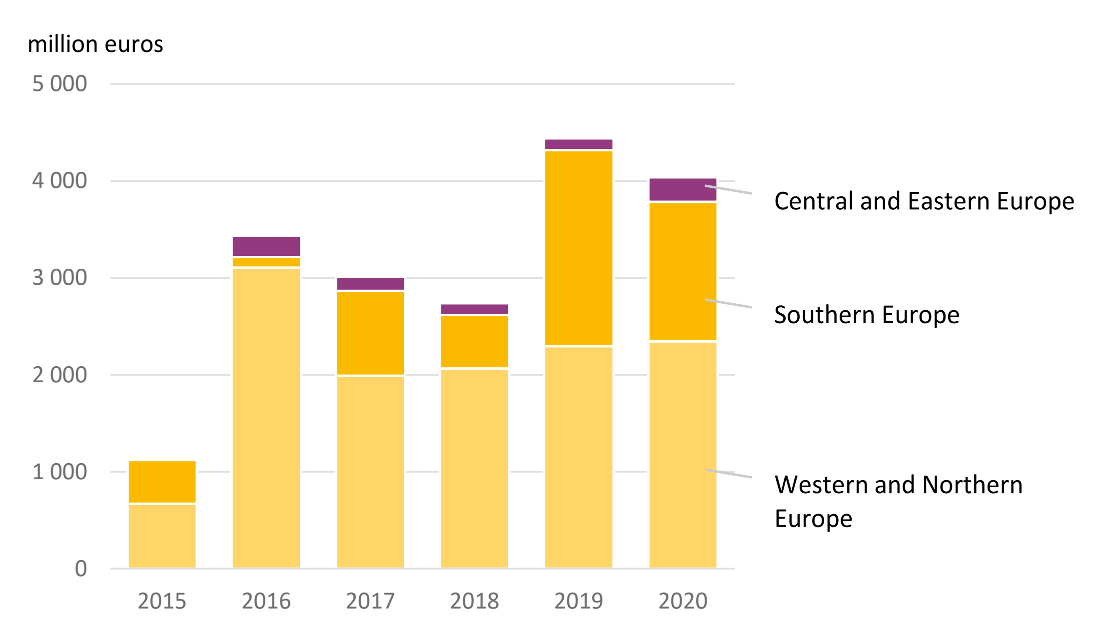
Source: ECA based on EIB data.

67 In 2018, the High-level Expert Group observed that particular attention should be focused on accelerating infrastructural investment in the Central and Eastern European countries since they accounted for the majority of the sustainable infrastructure investment gap[94]. We found that the amounts of EFSI operations supporting climate action up to 2020 in these countries remained marginal (*Figure 9*). Overall, climate action investments represented 23 % of the total EFSI financing in this region as compared to 52 % in Western and Northern Europe and 37 % in Southern Europe in the 2015-2020 period. In 2021, an EIB report based on an analysis of Member States National Energy and Climate Plans confirmed higher climate investment needs in Central and Eastern Europe[95].

[94] Final Report by the High-Level Expert Group on Sustainable Finance, 2018, p.38.

[95] EIB, Investment Report 2020-2021: Building a smart and green Europe in the COVID-19 era, 2021.

Figure 9 – EFSI Infrastructure and Innovation climate action financing by year and EU region



Source: ECA based on EIB data.

68 As InvestEU support will, like EFSI, depend on factors such as market demand and availability of other sources of financing, improving geographical coverage will require active measures to build capacity to generate sustainable projects in the sectors and areas where they are lacking.

The EU has been lacking a pro-active approach to generating sufficient pipeline of sustainable projects

69 The High-level Expert Group underlined in 2018 that intervention is needed at the EU level to help develop a pipeline of sustainable projects, in particular in Central and Eastern Europe. In this light, it recommended setting up an EU entity – Sustainability Infrastructure Europe – that would:

- complement existing advisory services in generating sustainable investment projects;
- help projects to connect with private finance investors;
- work with national promotional banks to support Member States to generate project pipelines as part of their National Energy and Climate Plans[96].

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[96] Final Report by the High-Level Expert Group on Sustainable Finance, 2018, p. 35.

70 Under the Action Plan (Action 3), the Commission committed itself to reinforcing advisory capacity for developing sustainable infrastructure projects but not to establishing a separate entity with the functions envisaged for Sustainability Infrastructure Europe.

71 The Commission plans to reinforce advisory services through the establishment of the InvestEU Advisory Hub. This new hub will use a similar approach to the European Investment Advisory Hub (EIAH), which was established in 2015 alongside the EFSI. In our 2020 audit of that hub, we found that by the end of 2018 it had carried out 10 % of its advisory assignments in top priority sectors, such as energy, transport and environment, in Central and Eastern Europe, with 16 % of all assignments related to climate action[97]. By the end of March 2021, the number of advisory assignments in top priority sectors in Central and Eastern Europe had risen and 33 % of EIAH assignments related to climate action. The Commission has also taken steps to address our recommendation to better target advisory assistance towards unmet needs.

72 The new InvestEU Portal will provide the opportunity for promoters to publish the information about their projects on the InvestEU Portal website - a continuation of the 2015-2020 European Investment Project Portal. However, the Portal was not designed to actively direct investors or to provide any sustainability or other technical and financial assessment of the projects published on the portal.

73 The National Energy and Climate Plans were, amongst other things, designed to support the development of a sustainable project pipeline in the area of climate and energy by providing clarity to investors over the scale and type of investments envisaged by Member States. However, we found that the information on investment needs[98] included in the plans was incomplete, inconsistent (***Annex V***) and showed large disparities (***Figure 10***). Although the Commission provided some support to Member States, it did not develop a common framework for Member States to apply when assessing their needs and identifying flagship sustainable projects. Thus, there is a risk that some National Energy and Climate Plans will not contribute to a credible sustainable project pipeline in sectors and areas where it is currently lacking.

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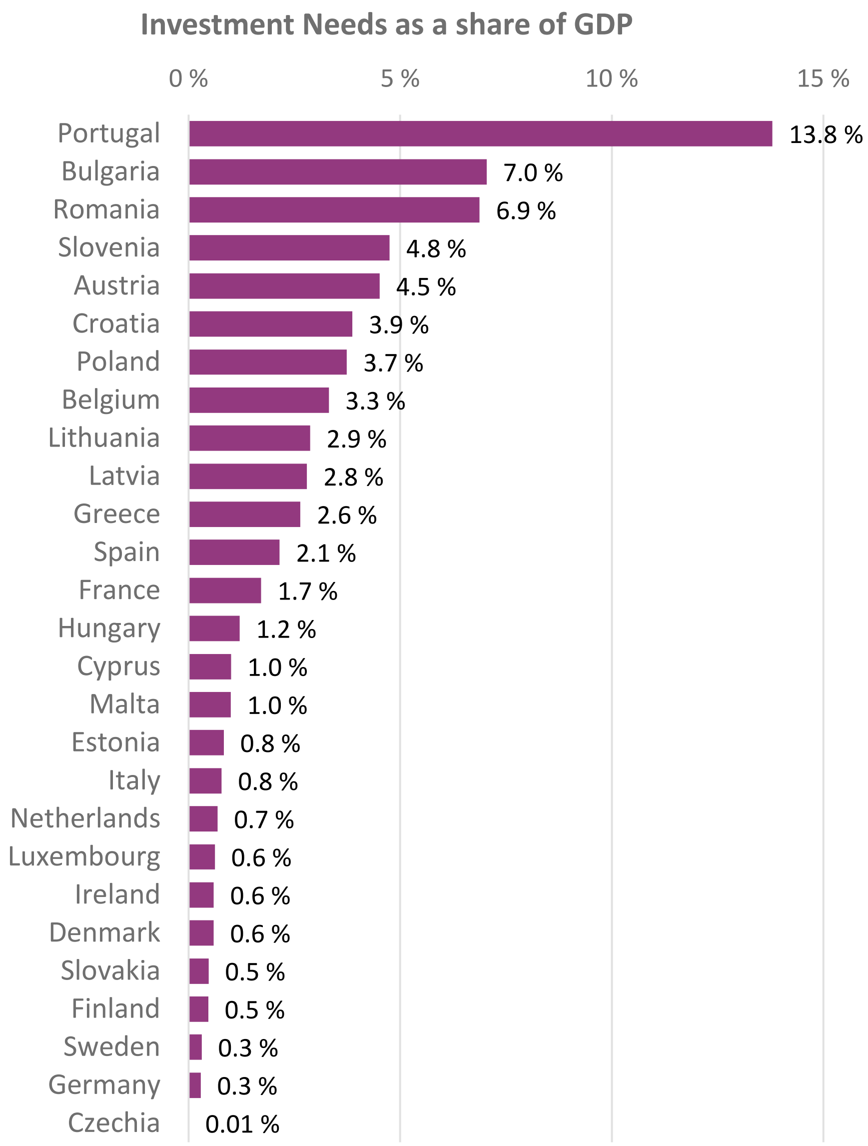
[97] ECA, The European Investment Advisory Hub — Launched to boost investment in the EU, the Hub's impact remains limited, Annex I.

[98] Regulation (EU) 2018/1999 on the governance of the energy union and climate action.

Figure 10 – Energy and climate investment needs identified in Member states' National Energy and Climate Plans as a share of their GDP



Source: ECA based on EC and Eurostat data (national GDP for 2020).

EU budget lacks consistent science-based criteria to avoid significant harm to the environment

74 We examined whether the 2021-2027 legal provisions for EU spending programmes and the Resilience and Recovery Fund were aligned with the Commission's actions on sustainable finance. Although the EU Taxonomy and the standards, labels and disclosure requirements based on it are primarily designed for financial market participants, they can also be applied by the public sector. As noted above (see paragraph *63*), the EIB has already decided to apply the EU Taxonomy criteria for its own operations, which will include those supported by the InvestEU. The Commission committed to "explore how the EU Taxonomy can be used in the context of the European Green Deal by the public sector, beyond InvestEU" and it underlined the importance of coherence between the private and the public sector[99]. The Technical Expert Group recommended that the EU budget should follow the "do no significant harm" principles of the EU Taxonomy for all investments[100].

75 Although the EU Taxonomy was not set up to prevent the funding of non-sustainable investments, the EU Taxonomy criteria can be applied to check if an investment causes harm to the environment. We examined whether the main EU spending programmes will apply the EU Taxonomy criteria to assess environmental harm in a comparable way to the EIB.

The "do no significant harm" principle is not applied to all EU expenditure

76 We found that there is no consistent and binding requirement on all activities receiving EU financing to apply the "do no significant harm" principle. Such a principle was introduced in the Common Provisions Regulation (applicable to cohesion policy funds) and in the RRF. At the time of the audit, the Commission had only published the relevant guidelines for applying the "do no significant harm" principle in the RRF[101]. However, under the RRF guidelines, the use of the specific EU Taxonomy criteria for applying this principle is only optional[102]. As regards the Common Agriculture Policy, the "do no significant harm" principle has not been introduced into the relevant legislation.

77 InvestEU sustainability proofing guidance[103] provides recommendations on how to determine whether projects have an environmental, climate or social impact. The guidance was developed in cooperation with implementing partners and takes into account the EU "do no significant harm" principle and relevant criteria. We found no requirements in other EU spending programmes for assessing individual investment

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[99] COM(2020) 21 final – Sustainable Europe Investment Plan, European Green Deal Investment Plan.

[100] TEG, Statement of the EU Technical Expert Group on Sustainable Finance: 5 high-level principles for Recovery & Resilience, 2020, p. 2.

[101] Regulation (EU) 2021/241 on establishing the Recovery and Resilience Facility.

[102] Official Journal C 58/1, 18.2.2021.

[103] Commission, Technical guidance on sustainability proofing for the InvestEU Fund, 2021.

projects against social and environmental standards comparable to those used by the EIB or InvestEU. This means that insufficiently strict or differing criteria may be used to determine the environmental and social sustainability of the same activities funded by different EU programmes.

78 We also found that certain EU spending programmes permit the funding of environmentally harmful activities. For example, the cohesion policy permits limited investments in gas infrastructure in some Member States[104]. Under the RRF, Member States may also support fossil fuel investments exceptionally on a case by case basis where a transition from carbon intensive energy sources would lead to a large and quick reduction in greenhouse gas emissions[105]. As the ECA has noted, any investments in fossil fuels risk becoming stranded assets[106]. In contrast, the EIB has decided to phase out support for conventional fossil fuel infrastructure and power generation projects, including natural gas, from the start of 2022[107].

The procedures for tracking the EU budget's contribution to climate objectives are not as strict and science-based as the EU Taxonomy criteria

79 Although the EU does not assess the contribution of individual projects to achieving climate objectives, as the EIB does, the Commission does track the EU budget expenditure committed to climate action ("climate tracking"). For this purpose, the Commission applies a 100 % coefficient to the budgetary spending it assesses as making a significant contribution to climate action, 40 % for spending making a moderate contribution, and 0 % to spending making an insignificant contribution[108]. We observed in previous ECA reports that this methodology can lead to overestimates of the climate contribution. In particular, we criticised the methodology for applying too broadly the 100 % coefficient[109] and for not reporting on actual expenditure and

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[104] COM(2018) 372 final – Proposal for a Regulation of the European Parliament and of the Council on the European Regional Development Fund and on the Cohesion Fund.

[105] C(2021) 1054 final – Commission Notice: Technical guidance on the application of "do no significant harm" under the Recovery and Resilience Facility Regulation.

[106] Official Journal C 209/1, 1.9.2020 – ECA Opinion No 5/2020.

[107] EIB, EIB Energy lending policy, 2019.

[108] Commission, Draft General Budget of the European Union for the financial year 2021 – Statement of revenue and expenditure by section, working document part I: Programme Statements of Operational Expenditure.

[109] ECA, Spending at least one euro in every five from the EU budget on climate action: ambitious work underway, but at serious risk of falling short, 2016.

results. We also observed that the Commission does not account for the negative impact on climate change of some EU funded activities[110].

80 Under the system for 2021-2027 the activities supported by the RRF and the cohesion policy funds will, in some cases, have to meet thresholds that are based on the EU Taxonomy criteria in order to be reported as 100 % contributing to climate action[111]. However, the Commission will continue to apply the 40 % coefficient to activities that do not meet any EU Taxonomy criteria. We found that, also in other areas, the EU budget approach to track climate action related spending does not apply the EU Taxonomy criteria (***Box 5***). The lack of consistent application of the EU Taxonomy risks that finance raised for the climate part of the RRF will not meet the EU Taxonomy-based criteria that will apply for the EU green bond standard.

[110] ECA, Tracking climate spending in the EU budget, 2020.

[111] SWD(2021) 12 final – Commission Staff Working Document, Guidance to Member States: Recovery and Resilience Plans.

Box 5

EU Taxonomy includes stricter criteria of what contributes to climate action in agriculture compared to tracking system in EU budget

The Technical Expert Group proposed EU Taxonomy criteria for two areas in the agriculture sector: growing crops and livestock production. To consider the activity as substantially contributing to climate mitigation the experts set out the two criteria that must be fulfilled

(1) "Demonstrate substantial avoidance or reduction of greenhouse gas emissions from production and related practices; and

(2) Maintain existing sinks and increase sequestration"[112].

These criteria are not applied when counting agricultural spending as contributing to climate action.

At the time of our audit, the Commission decided to temporarily remove criteria for agricultural activities from the Delegated Taxonomy Regulation in order to achieve greater coherence across the different instruments for achieving environmental and climate ambitions of the Green Deal[113]. At the same time, any further changes to climate tracking in the Common agricultural policy have been postponed by the co-legislators until after 31 December 2025.

81 We found that EU support for investments needs to be better aligned with the sustainable finance principles. The EU's grant funding does not lead by example in applying sustainability criteria and the "do no significant harm" principle of the EU Taxonomy. Using the EU Taxonomy criteria when awarding grants and/or when tracking expenditure would provide more accurate, comparable and science-based tracking data for climate expenditure. By applying the EU Taxonomy to the EU budget, the EU could also lead by example and ensure coherence with the goal of the Action Plan to promote sustainable finance in the private sector.

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[112] TEG, Taxonomy Report: Technical Annex, Updated methodology & Updated Technical Screening Criteria, 2020, p. 112, p. 126 and p. 140.

[113] Commission, EU Taxonomy Climate Delegated Act, 2021, pp. 3-4.

Conclusions and recommendations

82 We conclude that more EU action is needed to redirect private and public finance towards sustainable investments. The measures of the Action Plan need to be completed and accompanied by actions to better reflect the social and environmental costs of unsustainable economic activities. In addition, the EU needs to apply consistent criteria to determine the sustainability of the investments it supports and better target efforts to generate sustainable investment opportunities.

83 We found that seven out of ten actions of the Action Plan were aimed at the key issue of improving transparency about sustainable activities and financial products. Only one action aimed at addressing the key issues of reducing the risk and cost of financing sustainable investments and encouraging the development of sustainable projects. The Action Plan was not accompanied by sufficient measures to reflect the environmental costs of unsustainable activities (paragraphs ***15***-***22***).

84 Many Action Plan measures suffered delays and require further steps to become operational. The Commission focused on preparing the EU Taxonomy, which could clarify what activities are sustainable and provide a basis for sustainability disclosures by the private and public sector. The entry into force of the EU Taxonomy has been considerably delayed, which is also delaying the other measures that are based on it, such as labelling of financial products and sustainability disclosures. We consider that when the EU Taxonomy enters into force, it could be a good science-based tool for investors to screen investment opportunities and for companies to align their economic activities with sustainability objectives (paragraphs ***27***-***36***).

85 The effectiveness of the EU Taxonomy and labelling schemes will largely depend on their voluntary take up and on whether their credibility is backed up by adequate verification. This may prove challenging due to the number and complexity of the EU Taxonomy criteria. In addition, the exposure of the private sector to sustainability risks and the impact of companies on the environment and society will remain unclear until the new EU disclosure requirements become fully applicable. In our opinion, the Commission has not yet sufficiently clarified the arrangements for Member States' competent authorities to verify financial market participants sustainability related disclosures and the proposed arrangements for auditing corporate sustainability reporting are pending legislative approval. Furthermore, measures to favour longer term investment are still preparatory and no legislative proposals have been presented (paragraphs ***37***-***53***).

Recommendation 1 – Complete the measures of the Action Plan and clarify compliance and audit arrangements

We recommend that the Commission should:

(a) complete delayed elements of regulatory measures of the Action Plan, in particular the EU Taxonomy, and follow up the preparatory actions in the area of corporate governance;

(b) clarify the arrangements for verifying the claims of alignment of underlying investments of financial products with the EU Taxonomy;

(c) clarify the role of auditors and supervisors in verifying respectively sustainability reporting and disclosures by companies and disclosures of financial market participants.

Timeframe: end 2022 (a) (b) (c).

86 As noted by the High-level Expert Group, the Commission actions for redirecting private finance towards sustainable investments will not be effective if negative environmental and social side-effects are not included in the price of economic activities. In this context, we note that the Commission has started work on proposals to revise the EU Emissions Trading Scheme and Effort Sharing Regulation, which cover existing measures for reducing emissions in the EU (paragraphs *22*-*26*).

Recommendation 2 – Better contributing to sustainable finance by pricing greenhouse gas emissions

In order to take better account of the environmental and social costs of unsustainable economic activities and increase attractiveness of sustainable finance, we recommend that the Commission identify additional measures that aim to ensure that the pricing of greenhouse gas emissions better reflects their environmental cost.

Timeframe: end of 2022.

87 EU financial support for investments is not based on consistent sustainability standards. The EIB has been playing an important role in providing finance for sustainable projects on favourable terms and assessing compliance with environmental and social standards. The EIB has also promoted sustainable finance through dialogue with investors on applying sustainability criteria. However, demand for EFSI support did not sufficiently cover all sector and geographical areas needing sustainable investments. Less EFSI support for climate action went to Central and Eastern Europe compared to other areas and investments in adaptation to climate change represents only a small share of financing supported by EFSI. We also found that 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 (paragraphs *55*-*67*).

Recommendation 3 – Reporting on climate and environment related results of InvestEU

In order to increase transparency of InvestEU investments and results, we recommend the Commission to:

(a) disclose how much InvestEU financing is tracked using the EU Taxonomy; and

(b) report on the climate related results, such as the actual reduction of greenhouse gas emissions, of relevant completed financing operations.

Timeframe: from end of 2022.

88 We also found that the EU has been lacking a pro-active approach to generating sufficient pipeline of sustainable projects. In a previous report, we observed that the European Investment Advisory Hub carried out few advisory assignments in priority sectors, such as energy and transport, in Central and Eastern Europe. We note that progress has subsequently been made in targeting advisory assistance to these areas and in developing projects which potentially could be supported under the InvestEU guarantee. There is, however, no service at the EU level to actively direct investors towards projects and the potential of National Energy and Climate Plans to generate sustainable projects is under exploited (paragraphs *69*-*73*).

Recommendation 4 – Generating a pipeline of sustainable projects

We recommend that the Commission should:

(a) prioritise the advisory support to the areas and sectors with high sustainable investment needs but low capacity to generate the necessary projects, including for climate adaptation;

(b) in view of the upcoming update of National Energy and Climate Plans, help Member States improve the completeness and consistency of the information they provide in their draft updated plans on investment needs in the different sectors and regions including in adaptation to climate change.

Timeframe: end of 2023.

89 Arrangements for assessing the sustainability of EU spending do not fully follow sustainable finance good practice with respect to applying the "do no significant harm principle" and science-based environmental and social criteria, as those developed for the EU Taxonomy. We found that there is no consistent and binding requirement on all activities receiving EU financing to apply the "do no significant harm" principle. While such a principle was introduced for the funds covered by the Common Provisions Regulation and the RRF regulation, it was not introduced, for example, into the relevant legislation of the Common Agriculture Policy. The Commission has only issued guidelines for applying the principle under the RRF. However, the use of the EU Taxonomy criteria for implementing the principle under the RRF is optional. We also found no requirements in EU spending programmes other than InvestEU for assessing individual investments against social and environmental standards comparable to those used by the EIB. This means that insufficiently strict or differing criteria may be used to determine the environmental and social sustainability of the same activities funded by different EU programmes (paragraphs ***74***-***78***).

90 The procedures for tracking the EU budget's contribution to climate objectives are not as strict and science-based as the EU taxonomy criteria that the EIB has committed to applying. By not applying the EU Taxonomy to the EU budget, the EU risks undermining its own efforts to promote sustainable finance in the private sector. It also risks the EU budget's contribution to climate action being overestimated and not being comparable to the EIB and InvestEU climate tracking figures. Finally, the EU runs the risk that finance raised for the climate part of the RRF will not meet the EU Taxonomy-based standards that will apply for the EU green bond standard. This could also affect the willingness of the financial market to buy green bonds and finance the RRF (paragraphs ***79***-***81***).

Recommendation 5 – Applying the "do no significant harm principle" and the EU Taxonomy criteria consistently across the EU budget

We recommend that the Commission should:

(a) apply the "do no significant harm" principle across the EU budget;

(b) include in the proposal for a revised Financial Regulation the "do no significant harm" principle;

(c) fully integrate the EU Taxonomy criteria into the EU climate tracking methodology as and when they become available;

(d) complement the current reporting on the contribution of the EU budget to climate action by disclosing the climate related EU expenditure that relates to applying a 100% coefficient based on the EU taxonomy criteria.

Timeframe: following the adoption of the EU Taxonomy delegated acts (2022).

91 Finally, the Commission only reported on the implementation of the Action Plan in July 2021. In addition, the Commission did not develop performance indicators related to the objectives of the Action Plan. Without such indicators, it will not be possible to monitor progress and evaluate performance in redirecting finance towards sustainable investments (paragraph ***27***-***29***).

Recommendation 6 – Monitoring and reporting of the Sustainable Finance Action Plan and future strategy

We recommend that the Commission should:

(a) create common performance indicators that will allow better monitoring of progress;

(b) report on the implementation of the Action Plan and any new sustainable finance strategy.

Timeframe: end 2023.

This Report was adopted by Chamber V, headed by Mr Tony Murphy, Member of the Court of Auditors, in Luxembourg on 20 July 2021.

For the Court of Auditors

Klaus-Heiner LEHNE
President

Annexes

Annex I – Coverage of the key High-level Expert Group recommendations in the Actions Plan

Key HLEG recommendations		Relevant parts of the Action Plan
1	Establish and maintain a common sustainability taxonomy at the EU level	Action 1: Establishing an EU classification system for sustainable activities
2	Clarify investor duties to better embrace long-term horizon and sustainability preferences	Action 4: Incorporating sustainability when providing financial advice Action 7: Clarifying institutional investors' and asset managers' duties
3	Upgrade disclosure rules to make sustainability risks fully transparent, starting with climate change	Action 7: Clarifying institutional investors' and asset managers' duties Action 9: Strengthening sustainability disclosure and accounting rule-making
4	Key elements of a retail strategy on sustainable finance: investment advice, ecolabel and minimum standards of socially responsible investment	Action 2: Creating standards and labels for green financial products Action 4: Incorporating sustainability when providing financial advice
5	Develop and implement official European sustainability standards and labels, starting with green bonds	Action 2: Creating standards and labels for green financial products
6	Establish “Sustainable Infrastructure Europe”	No relevant action in the Action Plan
7	Governance and Leadership (Better align corporate culture with a long-term outlook)	Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets
8	Include sustainability in the supervisory mandate of the ESAs and extend the horizon of risk monitoring	Action 4: Incorporating sustainability when providing financial advice Action 8: Incorporating sustainability in prudential requirements

Annex II – Delivery and outcome of actions in the EU Action Plan

Delivery and outcome of actions in the EU "Action Plan: Financing Sustainable Growth" up to July 2021

Action	N°	Outcome planned in the result of the Action Plan	Delivery planned/actual (add status)	Status	Expected final outcome	Way of application
Objective 1: Reorient capital flow towards sustainable investment						
Action 1 **EU Taxonomy**	1.	Commission legislative proposal on the establishment of a framework to facilitate sustainable investment sent by the Commission to legislative authority	Q2 2018/Q2 2018		Taxonomy Regulation on the establishment of the framework to facilitate sustainable investment	
	2.	Technical Expert Group (TEG) Taxonomy Technical Report for climate change mitigation and adaptation	Q1 2019/Q2 2020		EU Taxonomy on climate change mitigation and adaptation	
	3.	TEG Taxonomy Technical Report for the remaining four environmental activities (now task taken over by the Platform on Sustainable Finance)	Q2 2019/?		EU Taxonomy on water, waste, pollution prevention and biodiversity	
Action 2 **Standards and Labels**	4.	TEG Report on EU Green Bond Standard	Q2 2019/Q1 2020		EU Green Bond Standard	
	5.	Commission delegated act on prospectus for green bond issuances	Q2 2019/?		Standardized green bond prospectus content	
	6.	JRC Draft Technical Report on EU Ecolabel for financial products	?/Q4 2019		The creation of a voluntary EU-wide labelling scheme for financial products	

Action	N°	Outcome planned in the result of the Action Plan	Delivery planned/actual (add status)	Status	Expected final outcome	Way of application
Action 3 **Fostering sustainable investments**	7.	Improve the efficiency and impact of instruments aiming at sustainable investment support	Recurring action		Improved efficiency and impact of different EU instruments including reinforced advisory capacity for developing sustainable projects	
Action 4 **Incorporating sustainability in financial advice**	8.	Commission proposal of delegated Act MiFID II and IDD	Q2 2018/Q4 2020		Investment firms and insurance distributers offer suitable products to meet their clients' needs in terms of sustainability preferences. Mandatory assessment of these preferences of customers when providing advice on insurance-based investment products.	
	9.	ESMA includes sustainability preferences as part of its guidelines on the suitability assessment	Q4 2018/Q4 2020		ESMA guidelines for investment advisors and portfolio managers on the good practice to collect information on the client's preferences concerning ESG factors	
Action 5 **Sustainability Benchmarks**	10.	Commission delegated acts on the consideration of ESG factors in the benchmark methodology	Q2 2018/Q3 2020		Regulation requiring companies that publish financial benchmarks to explain how ESG criteria are reflected in the benchmark methodology	
	11.	Creation of two new types of Climate Benchmarks	Q2 2018/Q2 2018		Climate-transition benchmark (CTB) Paris aligned benchmark (PAB)	
	12.	TEG Report on Benchmarks	Q2 2019/Q3 2019		Recommendations on ESG disclosure requirements and minimum technical requirements for EU CTBs and PABs	

Action	N°	Outcome planned in the result of the Action Plan	Delivery planned/actual (add status)	Status	Expected final outcome	Way of application
Objective 2: Mainstreaming sustainability in risk management in finance						
Action 6 **Sustainability in ratings and research**	13.	Commission progress report on actions concerning credit rating agencies	Q3 2019/?		Opinion on the needed measures to improve transparency and better consideration of the ESG factors in the credit ratings published by credit rating agencies	
	14.	ESMA assessment of the current practices in the credit rating market; ESMA guidelines on ESG disclosure for credit rating agencies	Q2 2019/Q2 2019		ESMA guidelines on disclosure requirements applicable to credit ratings and consideration of these guidelines in the ESMA's supervision work	
	15.	Study on sustainability ratings and research	Q2 2019/Q4 2020		Study on sustainability ratings and research	
Action 7 **Investors duties**	16.	Commission legislative proposal of the Regulation on sustainability-related disclosures in the Financial Services Sector	Q2 2018/Q4 2020		Amendments in MiFID II, UCITS, AIFMD, IDD and Solvency II frameworks: Clarifying how asset managers, insurance companies and investment advisors should integrate sustainability risks within their existing organisational and operating procedures.	
Action 8 **Prudential requirements**	17.	Incorporation of climate risks into institutions' risk management policies and potential calibration of banks' capital requirements to take into account financial stability and sustainability criteria of the EU Taxonomy	Q4 2019/Q2 2019		Incorporation of climate risks into institutions' risk management policies and potential calibration of banks' capital requirements to take into account financial stability and	

Action	N°	Outcome planned in the result of the Action Plan	Delivery planned/actual (add status)	Status	Expected final outcome	Way of application
					sustainability criteria of the EU Taxonomy	
	18.	EIOPA assessment on how issuers can contribute to identify, measure and manage the risks arising from climate change through their activities	Q3 2019/Q3 2019		EIOPA's opinion on how insurers can contribute to identify, measure and manage risks arising from climate change, through their investment and underwriting activities	
Objective 3: Foster transparency and long-termism in financial and economic activity						
Action 9 **Sustainability disclosure**	19.	Commission's conclusions of the fitness check on public corporate reporting	Q2 2019/Q2 2021		The conclusions of the Fitness Check should feed into the Commission's proposal to revise the Non-Financial Reporting Directive (NFRD)	
	20.	Revision of the guidelines on non-financial information as regards climate-related information of the large public interest entities (above 500 employees)	Q2 2019/Q2 2019		Supplement to NFRD: guidelines to integrate climate-related information with other financial and non-financial information.	
	21.	Proposal requiring asset managers and institutional investors to disclose how they consider sustainability factors in their investment decision making process	Q2 2018/Q2 2018		New transparency requirements concerning asset managers and institutional investors, regarding: – integration of sustainability risks in investment decisions-making; – consideration of principal adverse impacts of investment decisions on sustainability; – information on how remuneration policies are consistent with the integration of sustainability criteria;	

Action	N°	Outcome planned in the result of the Action Plan	Delivery planned/actual (add status)	Status	Expected final outcome	Way of application
	22.	Establishing a European Corporate Reporting Lab (ECRL) at EFRAG	Q3 2018/Q3 2018		ECRL should stimulate innovation in the field of corporate reporting and facilitate dialogue between reporting companies, users and other relevant stakeholders	
	23.	Commission's systematic request to EFRAG to assess the impact of new IFRS on sustainable investments	Recurring action		In 2019, the IASB Chair informed that IFRS Foundation is not equipped to enter the field of sustainability reporting and should focus on the financial information needs of investors. The IASB decided to not consider sustainability impacts in developing IFRS	
	24.	Commission request to EFRAG to explore sound alternative accounting treatments to fair value measurement for long-term investment portfolios of equity and equity-type instruments	Q2 2018/Q1 2020		Upon receiving EFRAG's technical advice, the Commission has engaged with the IASB to work, in the context of the IASB post implementation review of IFRS 9, on reintroducing the re-cycling for equity instruments as an IASB amendment to IFRS 9. The IASB has extended the deferral option for insurers to apply IFRS 9 until 1 January 2023. Insurers as an important group of long-term investors do not have yet to be constrained by IFRS 9 non-re-cycling.	
	25.	Commission report on the impact of IFRS 9 on long-term investments	Q4 2018/?			

Action	N°	Outcome planned in the result of the Action Plan	Delivery planned/actual (add status)	Status	Expected final outcome	Way of application
Action 10 **Sustainable corporate governance**	26.	Assessment of possible ways to promote sustainable corporate governance	Q2 2019/Q1 2020	Delivered with delay	Study on due diligence requirements through the supply chain: 1. need of corporate boards to disclose a sustainability strategy 2. need of directors to act on company's long-term interest 3. explore undue short-term pressure	Research and studies
	27.	Report on undue short-term pressure by ESMA, EBA and EIOPA	Q1 2019/Q4 2019	Delivered with delay	Advise: to adopt a longer-term perspective among financial institutions through more explicit legal provisions on sustainability	Research and studies

Delivered on time	Delivered with delay	Not delivered	Recurring	Mandatory instruments	Voluntary instruments	Research and studies

Source: ECA.

Annex III – Most important and recent developments concerning the Action Plan

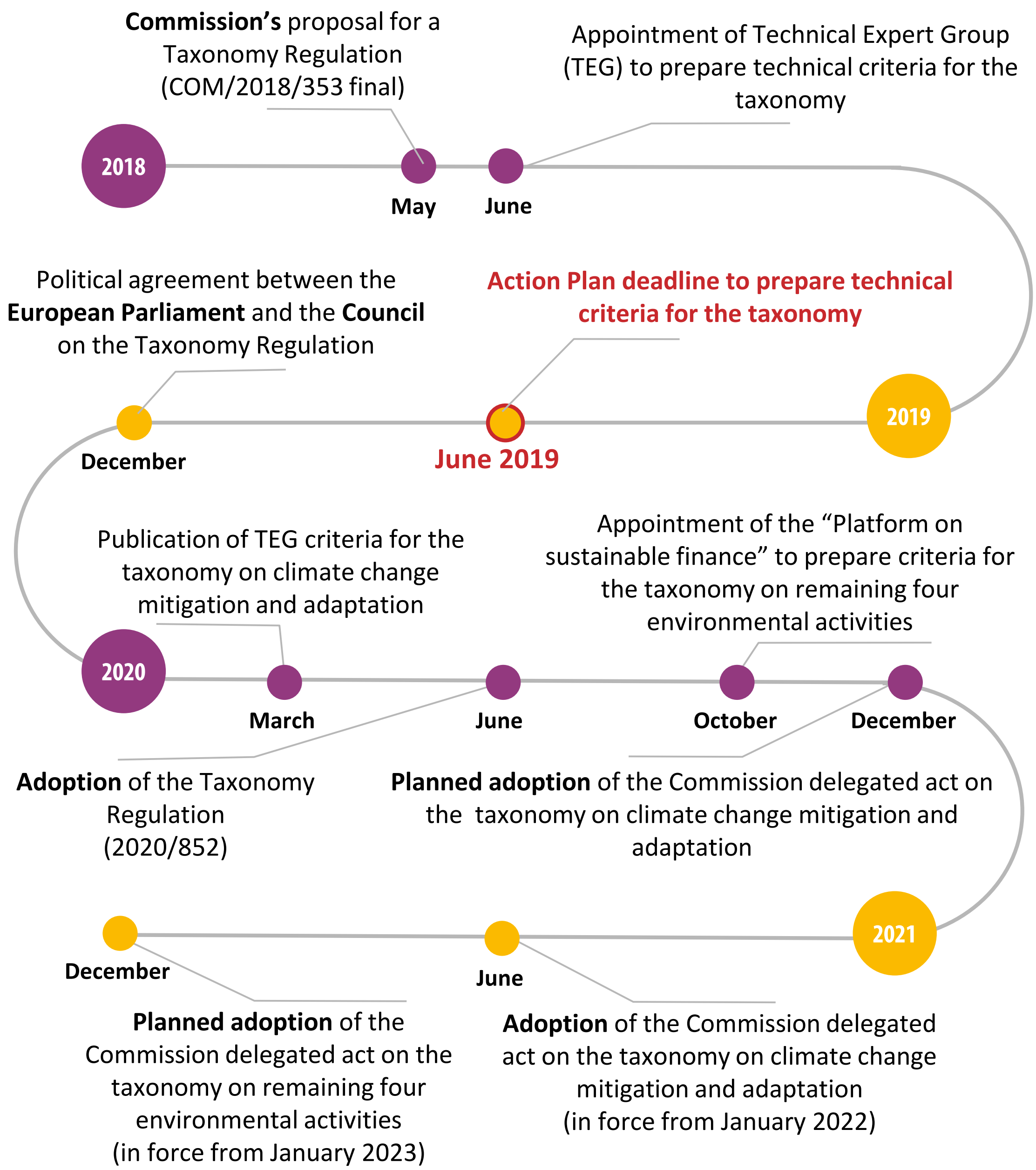
Action Plan	Most important and recent developments
Action 1: Establishing an EU classification system for sustainable activities	— In March 2020, the Commission published Taxonomy: Final report of the Technical Expert Group on Sustainable Finance including recommendations on the design of the EU Taxonomy. The Technical Annex, which supplements the report, contains proposal of the technical screening criteria for economic activities, which can substantially contribute to climate change mitigation or adaptation. — The Taxonomy Regulation on the establishment of a framework to facilitate sustainable investment was adopted in June 2020. — In November 2020, the Commission published draft-delegated act implementing the technical screening criteria for climate change mitigation and adaptation. — In April 2021, the Commission published the amended draft delegated act implementing the technical screening criteria for climate change mitigation and adaptation. The delegated act was adopted in June 2021 and will apply from 1 January 2022.
Action 2: Create standards and labels for green financial products	— In 2019, the TEG proposed to create a voluntary EU Green Bond Standard. It would require the financing of activities complying with the technical screening criteria of the EU Taxonomy. The issuers would be obliged to report for example on the activities financed through the green bond. — The Commission launched a public consultation on the EU Green Bond Standard from June to October 2020. The Commission presented a legislative proposal for a standard on European green bonds on 6 July 2021. — In October 2020, the Commission's Joint Research Centre (JRC) provided draft criteria for retail financial products to classify them as sustainable. Once developed, the criteria will be adopted through a decision by the Commission, expected by the end of 2021/beginning 2022. The works on developing an EU ecolabel criteria for retail financial products is ongoing.
Action 3: Fostering investment in sustainable projects	— The adoption of the InvestEU regulation in March 2021 and increasing the climate streamlining of the EU Budget to 30 %.
Action 4: Incorporate sustainability in providing investment advice	— The updated ESMA guidelines only provide that incorporating sustainability in investment advice "would be a good practice". — The delegated regulations concerning consideration of retail client's sustainability preferences in financial advice were approved by the Commission on 21 April 2021. They concern investment and insurance advice.
Action 5: Develop sustainability benchmarks	— The amendment of the Climate Benchmarks Regulation of November 2019 creates two types of EU climate benchmarks: "EU Climate Transition" and "EU Paris-aligned". The regulation also requires the Commission to assess the feasibility of a broader "ESG benchmark". — Following the Final Report of the TEG on EU climate benchmarks and benchmark ESG disclosures on 17 July 2020, the Commission adopted

Action Plan	Most important and recent developments
	delegated acts setting out disclosures relating to environmental, social and governance factors.
Action 6: Better integrate sustainability in ratings and market research	— In 2019, the ESMA published the technical advice on sustainability considerations in the credit rating market and the guidelines on disclosure requirements applicable to credit rating agencies. — In 2020, the Commission appointed a think-tank to conduct sustainability ratings and research study. — According to the public consultation document on the renewed sustainable finance strategy, the Commission intends to report by the end of 2021 on the need to enhance the regulatory framework regarding disclosure of ESG considerations by credit rating agencies.
Action 7: Clarify institutional investor's and asset managers' duties	— On 24 July 2018, the Commission requested ESAs to issue technical advice on potential amendments to delegated acts with regard to the integration of sustainability risks and sustainability factors in the procedures and organisation, product oversight and governance by certain financial entities (including asset managers and institutional investors, insurance companies, investment and insurance advisers). — ESAs published its Final Report on technical advice to the Commission on 30 April 2019. — The delegated regulations concerning the integration of sustainability risks were adopted by the Commission on 21 April 2021.
Action 8: Incorporate sustainability in prudential requirements	— Following the amendment in 2019 of the Capital Requirement Regulation, the EBA is required to assess by June 2025 the riskiness of assets or activities exposed to social and/or environmental risks (physical and transition risks). The co-legislators also mandated the EBA to assess by June 2021 a possible inclusion of ESG risks in the review and evaluation performed by supervisor. — Regarding the insurance sector, the Commission received the technical advice from the EIOPA on the integration of sustainability risks in the prudential framework for insurance companies, which informed delegated acts or "Level 2 measures" adopted in April 2021. In September 2019, EIOPA also provided a broader opinion on sustainability in Solvency II. The Commission is conducting a review of Level 1 measures and aims to complete it in 2021 and will, for that purpose, take into account EIOPA's opinion from 2019. — The sustainability risks concerning the banking, insurance, asset management and pension provision sectors were the subject of the Commission's public consultation in 2020 on the renewed sustainable finance strategy.
Action 9: Strengthen corporate sustainability disclosure	— In 2018, following the Commission's call, the European Financial Reporting Advisory Group (EFRAG) created the European Corporate Reporting Lab. — In 2019, the Commission published guidelines on climate-related disclosure, building on the input of the Technical Expert Group on Sustainable Finance. — The conclusions of the fitness check show that the NFRD does not adequately respond to the demand for information from different groups of stakeholders, mainly investors and civil society organisations. Investors need a better understanding of sustainability risks. Some of them seek financial products that actively address environmental and social problems, and therefore also need information on impacts. Civil society organisations need to hold companies accountable for their impacts and hence need to access this information.

Action Plan	Most important and recent developments
	— In 2020, the European Lab issued its first report on how to improve climate related reporting. The Commission has mandated the European Lab to carry out preparatory work on possible EU non-financial reporting standards. In April 2021, the Commission published Proposal for a Corporate Sustainability Reporting Directive revising the NFRD, supported by the Fitness Check on the EU framework for public reporting by companies. — "Commission report on the impact of IFRS 9 on long-term investments" planned in the Action Plan has not been prepared. The Commission considers that such analysis is currently not relevant due to revised rules for accounting treatment of financial assets by insurance undertakings. — In 2019, the European Parliament and the Council adopted regulation on sustainability-related disclosures in the financial services sector (SFDR). The co-legislators request the European supervisory authorities (ESAs) to develop by December 2020 draft standards for sustainability related information and indicators. In February 2021, ESAs published the draft regulatory technical standards on the content and methodology of disclosures under SFDR that, after endorsement by the Commission, should apply from March 2021. By December 2021, ESAs also have to prepare draft standards for disclosures related to adverse impacts in the field of social matters, human rights, anti-corruption and anti-bribery. Only then will the Commission adopt these rules in delegated and implementing acts. — On 6 July 2021, the Commission adopted delegated act supplementing Article 8 of the Taxonomy Regulation, which specifies the content, methodology and presentation of information to be disclosed by financial and non-financial undertakings.
Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets	— In 2019, following the request of the Commission, three ESAs published their reports on the problem of short-termism in corporate decision-making. ESMA proposes strengthened rules to address undue short-termism in securities markets; EBA calls on banks to consider long-term horizons in their strategies and business activities; EIOPA reports on potential undue short-term pressure from financial markets on corporates. — In 2020, the Commission published the Study on due diligence requirements through the supply chain, which informs about the need for introducing new mandatory requirements and Study on directors' duties and sustainable corporate governance, which concludes that to some extent, corporate short-termism finds its root causes in regulatory frameworks and market practices. — The Commission informed in 2020, that in order to incorporate ESG factors in business strategies, the Commission will put forward a new initiative in 2021 on sustainable corporate governance.

Source: ECA.

Annex IV – EU Taxonomy timeline



Source: ECA.

Annex V – National Energy and Climate Plans (NECPs): Member State estimations and presentations of investment needs

Member States	Description of investment needs	Amount
Austria	Estimated **total investment** volume for each dimension of the Energy Union for the period to 2030. The NECP lacks a general assessment of the sources of funding for the investment needed.	EUR 166-173 billion
Belgium	**Investment needs** for six areas (digital transition, cybersecurity, education, healthcare, energy, mobility) provided; No links between need estimates and the measures set out in the final NECP	EUR 144-155 billion
Bulgaria	**Total investment** needs during the period 2021-2030; Lack of information on: types of costs and methodology for estimation; breakdown of costs by dimensions; and the underlying logic of the model and assumptions; the proportion of investment needs that would be covered by each source.	EUR 42.7 billion
Croatia	Estimation of **total investment** in the period 2021-2030; partial analysis of investment costs and sources	EUR 19 billion (HRK 141 billion)
Cyprus	Estimated **total cost of investments needed** (including EU funds, national financing and private financing)	EUR 1.4 billion
	Estimated **financing needed** (including EU funds and national financing)	EUR 0.7 billion
Czechia	**Total investments** estimated; no general overview of investment needs and funding; no information on market risks.	EUR 0.038-0.19 billion (CZK 1-5 billion)
Denmark	**Accumulated public and private investment flows** initiated by the Energy Agreement (Households, Industry, Electricity, Gas and district heating)	EUR 13-24 billion (DKK 100-180 billion)
Estonia	**Public sector expenditure needs** in 2021-2030 for implementing measures in the energy sector	EUR 226 million/year
Finland	The Plan provides estimated numbers on the following sectoral investment needs (rail infrastructure, production of biofuels, renewable electricity, a rough estimate of demand for the electricity grid). The plan does not include all estimated investments required for the period 2020-2030. The plan does not provide full details about the sources of investment needed to achieve the objective.	EUR 11 billion

Member States	Description of investment needs	Amount
France	**Total costs** (buildings, transport, energy and electricity grits)	2019-2023: EUR 46 billion/year 2024-2028: EUR 64 billion/year 2029-2033: EUR 85 billion/year
Germany	**Additional investments** in the Climate Action Programme resulting from planned policies and measures in the area of conversion in the period 2021-2030 (in the final demand sectors, the figure is EUR 184 billion in the same period); the plan does not include an estimate for non-energy-related investment needs for sectors such as agriculture and industry	EUR 95.2 billion
Greece	Estimates of investments in the key areas of the NECP for the period 2020-2030; the plan lacks an analysis of the gap between the investment needs and available sources of financing	EUR 43.8 billion
Hungary	In the analysed period 2016-2040, the additional, fully discounted system cost under the WAM scenario	EUR 57 billion/HUF 20 401 billion (average annual value of EUR 1.64 billion/HUF 582.9 billion)
Ireland	National Development Plan 2018-2027 sets out **investment priorities** for climate action for the 10 year period; The final NECP does not assess the overall investment needs to achieve the objectives and ambition defined under the WAM scenario, though it stresses the need to mobilise private investment.	EUR 21.8 billion
Italy	Between 2017 and 2030 cumulative **additional investment** needed for the national energy system	EUR 180 billion
Latvia	**Investment needed** to achieve the energy targets for 2030	EUR 8.2 billion
Lithuania	**Funding needs** for planned policies and measures for 2021-2030 (Energy efficiency, transport, agriculture and forestry, industry, waste management, GHG reduction measures, adaption to climate change)	Total need of funds: EUR 14 billion Need for public funds: EUR 9.8 billion
Luxembourg	Investments in energy efficiency and renewable energy (various scenarios) presented until 2040; The Plan omits other GHG-relevant reduction measures such as investments in public transport; funding sources not consistently linked to policy objectives; there is no distinction between the private and public sources of funding. It is therefore not possible to quantify the direct impact of NECP measures on public finances.	EUR 7.95 billion
Malta	The **total undiscounted cost** borne by Government for 2018-2030 (Investment costs by sector, investments split by technology, annual	EUR 1.66 billion

Member States	Description of investment needs	Amount
	investment in households); the final plan includes a breakdown of funding sources, but it is not sufficiently detailed. The national budget is the implied source of the vast majority of funding, with scope for EU funding if needed, without further information regarding the share of investment needs that might be covered with the EU-level funding programmes.	
Netherlands	**Cumulative investments** 2019-2030 (Cluster: Built-up environment, new constructions, existing non-residential buildings, existing homes, mobility, renewable fuels, promoting electric vehicles, freight transport, agriculture and land use, industry, electricity generation, etc.)	EUR 56-75 billion
Poland	**Investment needs** for years 2021-2030	around EUR 195 billion
Portugal	Estimated **overall and additional investment** for energy sector neutrality 2016-2030 (electricity, transport, buildings industry, other); the plan does not provide details on the methodology used to arrive at these estimates; no information on sources from regional budgets is provided	Additional: EUR 10.8-14.7 billion Overall: EUR 407-431 billion
Romania	**Total investment** value for 2021-2030 (energy demand, electricity grids, power plants, steam boilers); the plan contains a partial assessment of investment needs and expenditures, funding sources and other relevant information.	Around EUR 150 billion
Slovakia	**Total investment costs** to achieve the renewable energy sources targets; the identified investment needs are not matched with potential funding sources in a comprehensive manner.	EUR 4.3 billion
	Renovation of public buildings: total estimated amount of funding for public sector measures for 2021-2030	EUR 1.24 billion
	Investment costs related to decarbonisation of electricity generation	EUR 0.18 billion/year
	Investment costs related to decarbonisation of heat generation	EUR 0.25 billion/year
Slovenia	Overview of **total investment needs** for 2021-2030. The plan does not provide a comprehensive overview of the quantified sources of funding for each investment area. Similarly, the complementarity of different funding sources is not analysed. An assessment of investment sources at regional level is not included in the plan.	EUR 22 billion

Member States	Description of investment needs	Amount
Spain	**Total investments** needed to achieve the Integrated National Energy and Climate Plan (INECP) targets 2021-2030 (Saving and efficiency, renewable energy, networks and electrification, other measures)	EUR 241 billion
Sweden	Except for electricity production capacity and distribution infrastructure, the NECP does not contain an assessment of the investment needs or funding sources targeted to achieve Sweden's climate and energy objectives.	EUR 14.5 billion (SEK 150 billion)

Source: ECA.

Annex VI – New Commission's Strategy for Financing the Transition to a Sustainable Economy

In July 2021 the Commission published the "Strategy for Financing the Transition to a Sustainable Economy", called later "2021 Sustainable Finance Strategy". In this document the Commission recognises that the implementation of the 2018 Action Plan requires more work and confirms its commitment to complete it. The Commission considers that the new strategic document promoting sustainable finance is necessary due to new global context and evolving understanding of what is needed now to meet the sustainability goals.

The 2021 Sustainable Finance Strategy identifies the following four main areas where additional actions are needed:

Source: ECA, on the basis of European Commission.

Within these four priorities the Commission plans the following more detailed actions for consolidating and finalising the sustainable finance framework:

(1) Helping economic actors to finance their transition efforts (Action 1)

- (a) Recognise transition efforts on the pathway towards sustainability
- (b) Include in the EU Taxonomy additional sustainable activities, not yet covered by the adopted delegated act
- (c) Extend the framework of sustainable finance standards and labels

(2) Improving access to sustainable finance for individuals and smaller companies (Action 2)

- (a) Empowering individual investors and SMEs to access sustainable finance opportunities

(b) Leveraging the opportunities digital technologies offer for sustainable finance

(c) Offering greater insurance protection from climate and environmental risks

(d) Supporting credible social investments

(e) Increased risk-sharing between public and private investors, use of green budgeting tools by Member States and strengthened climate and biodiversity mainstreaming in the EU budget

(3) Getting the financial sector to contribute to meeting Green Deal targets (Action 3, Action 4 and Action 5)

(a) Enhancing economic and financial resilience to sustainability risks (financial reporting and accounting, credit ratings, sustainability risk management by banks and insurers, financial stability)

(b) Accelerating the contribution of the financial sector to transition efforts (i. financial institutions' disclosures, fiduciary duties of investors, comparability of ESG research and ratings, ii. monitoring greenwashing risks, measuring capital needs and flows)

(4) Promoting international consensus on sustainable finance (Action 6)

(a) Participation in international forums

(b) Use of the International Platform on Sustainable Finance (IPSF)

(c) Support for low and middle income countries

The relevant implementation of the following actions and measures of the 2021 Sustainable Finance Strategy may in the future address some of the observations and recommendations of this special report:

Subjects of observations and recommendations of this special report	Commission's actions and measures of the Sustainable Finance Strategy of 2021
Completion of the measures of the Action Plan	1 (c): The Commission will add technical screening criteria for sustainable activities not yet covered in the first EU Taxonomy Climate Delegated Act.
	1 (d): The Commission will adopt another Taxonomy Delegated Act covering the remaining four environmental objectives.
	3 (a): The Commission will work towards financial reporting standards that adequately reflect sustainability risks standards and will encourage natural capital accounting.
	3 (b): The Commission will take action to ensure that relevant ESG risks are systematically captured in credit ratings and rating outlooks in a transparent manner.
	3 (c): The Commission will propose amendments to the CRR/CRD to ensure ESG factors are consistently included in risk management systems of banks.

Subjects of observations and recommendations of this special report	Commission's actions and measures of the Sustainable Finance Strategy of 2021
	3 (d): The Commission will propose amendments in the upcoming review of the Solvency II Directive (2021) to consistently integrate sustainability risks in the prudential framework for insurers.
	4 (c): The Commission will take action to improve the availability, integrity and transparency of ESG market research and ratings.
Clarification of compliance and audit arrangements	5 (a): The Commission will enable supervisors to address greenwashing - monitor greenwashing risks, and assess and review the current supervisory and enforcement toolkit available to Competent Authorities, to ensure that supervisory powers, capabilities and obligations are fit for purpose, with the support of the European Supervisory Authorities
Generating pipeline of sustainable projects	2 (a): The Commission will aim to empower retail investors and SMEs to access sustainable finance opportunities. - the Invest EU Programme will provide de-risking mechanisms while the SME pillar of the Single Market Programme will provide advisory services for SMEs through the Enterprise Europe Network and the Joint Cluster Initiative
	2 (e): The Commission will work on green budgeting and risk-sharing mechanisms - The InvestEU programme will provide risk-taking capacity and support for related advisory initiatives to the EIB Group, national promotional banks and other financial institutions.
Applying the "do no significant harm" principle and the EU Taxonomy criteria consistently across the EU budget	2 (e): The Commission will work on green budgeting and risk-sharing mechanisms. - The Commission is committed to producing updated and strengthened tracking methodologies on both climate and biodiversity. Those tracking methodologies will be key to monitor that climate and biodiversity spending under the 2021-2027 Multiannual Financial Framework align with the EU's ambition
Monitoring and reporting of the Sustainable Finance Action Plan and future strategy	5 (b): The Commission will develop a robust monitoring framework to measure progress made by the EU financial system.
	5 (c): The Commission will improve the cooperation between authorities to work towards a common approach to monitor an orderly transition and monitor the alignment of the EU financial system with Green Deal targets.

Source: ECA.

Acronyms and abbreviations

ECB: European Central Bank

ECRL: European Corporate Reporting Lab

EFRAG: European Financial Reporting Advisory Group

EFSI: European Fund for Strategic Investments

EIB: European Investment Bank

ESG: Environmental, social and governance

ESMA: European Securities and Markets Authority

EU ETS: EU Emissions Trading Scheme

EU: European Union

GHG: Greenhouse gas

HLEG: High-level Expert Group

IFRS: International financial reporting standards

JRC: Joint Research Centre

MFF: Multiannual financial framework

NECP: National energy and climate plan

NFRD: Non-financial Reporting Directive

RRF: Recovery and Resilience Facility

TEG: Technical Expert Group

Glossary

Climate action: Action to address climate change and its impact.

Climate change: Changes in the Earth's climate system that result in new long-term weather patterns.

Climate change mitigation: Reducing or limiting the emission of greenhouse gases due to their effect on the climate.

Climate change adaptation: Reducing the vulnerability of countries and communities to climate change by increasing their ability to absorb its impacts.

Climate neutrality: Situation in which human activities result in no net effect on the climate.

Climate risk: Potential negative implications of both climate change and the transition to a low-emissions society.

Climate tracking: Monitoring progress towards the targets of spending on climate action.

"Do no significant harm" principle: The principle that economic activities may not significantly threaten environmental or social objectives.

Environmental, social and governance factors: Set of standards used by investors and other stakeholders to assess a company's non-financial performance.

EU Taxonomy: EU classification system which identifies the extent to which economic activities are environmentally sustainable.

European Green Deal: EU growth strategy adopted in 2019, aiming to make the EU climate-neutral by 2050.

Greenhouse gas: A gas in the atmosphere – such as carbon dioxide or methane – that absorbs and emits radiation, trapping heat and so warming the Earth's surface through what is known as the greenhouse effect.

Greenwashing: Claiming without justification that a product supports the environment and complies with environmental standards

InvestEU: An investment support mechanism to mobilise private investment in projects of strategic importance for the EU. It succeed the EFSI in 2021.

Short-termism: Focus on short time horizons by both corporate managers and financial markets, prioritising near-term shareholder interests over long-term growth of the firm.

Sustainability reporting: Reporting by a company or organisation on the economic, environmental and social impacts of their activities and their exposure to sustainability risk.

Sustainable development: An approach to development that takes account of long-term imperatives, such as durability of results, the preservation of the environment and natural resources, and social and economic equity.

Sustainable finance: The incorporation of environmental, social and governance considerations into business and investment decisions in the financial sector.

Sustainable investment: Investment in an economic activity that contributes to an environmental or social objective, provided that such investment does not significantly harm any of those objectives and that the investee company follows good governance practices.

Sustainability risks: Environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of the investment.

Replies of the Commission and the EIB

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=59378

Timeline

https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=59378

Audit team

The ECA's special reports set out the results of its audits of EU policies and programmes, or of management-related topics from specific budgetary areas. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was carried out by Audit Chamber V Financing and administering the Union, headed by ECA Member Tony Murphy. The audit was led by ECA Member Eva Lindström, supported by Katharina Bryan, Head of Private Office and Andrzej Robaszewski, Private Office Economist; Ralph Otte, Principal Manager; Martin Puc, Head of Task; Tomasz Plebanowicz, Deputy Head of task; James Mcquade, Laura Kaspar, Dana Šmíd Foltýnová, Mircea-Cristian Martinescu and Jan Olšakovský, Auditors. Jesús Nieto Muñoz provided illustration support. Adrian Williams provided linguistic support; Valérie Tempez-Erasmi and Monika Elsner provided secretarial assistance.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The transition to a net-zero emission economy will require significant private and public investment. We examined whether the Commission has been taking the right action to redirect finance towards sustainable investments. We conclude that more consistent EU action is needed. While the Commission rightly focused on increasing transparency in the market, there were no accompanying measures to address the cost of unsustainable economic activities and many actions have been delayed. In addition, 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 report can feed into the implementation of the 2021 Strategy for Financing the Transition to a Sustainable Economy.

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