

Steering the sustainability transition: Examining and understanding the EU governance to finance the transition to climate neutrality and sustainability

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Summary:

The policy objectives of the EU to become climate neutral by 2050 and the 2030 agenda for sustainable development will require structural economic changes. The European Commission brought forward the European Green Deal as the new growth strategy to make the economy sustainable. The research project aims at examining the characteristics of the governance structure of the EU and its effectiveness to steer the financing of the sustainability transition. It will also examine the economic governance framework of the EU and whether it is sufficiently calibrated for enabling the financing of the targeted policy goals and the interlinkage between efforts of the public and private sector. To this end, the EU governance structure, in particular the European Green Deal, provide for a valid empirical basis to investigate the governance approach at EU level, change of policy paradigms and the interlinkage between private sustainable finance and public investment in promoting a sustainable economy.

Research Puzzle and Hypothesis

Since the introduction of the European Green Deal - the new EU economic growth strategy to become the first climate neutral continent by 2050 - a change in the economic governance approach of the European Commission can be observed. Does this change of approach effectively correspond to the economic policy objectives to enable the financing the sustainability transition?

The policy tools available to the EU towards financing the transition to climate-neutrality and sustainability incentivising investment in sustainable activities. However, there are doubts (expressed by the Commission and others) whether this will be sufficient to close the investment gap requisite to finance the stated climate objectives under the European Green Deal and the attendant sustainability goals. It has been the claim of some policy observers that reform of the European economic governance framework is necessary to enable the full mobilization of the investment needed. Therefore, this project will examine the new economic governance framework of the EU and whether it is sufficiently calibrated for enabling the financing of the targeted policy goals and the interlinkage between efforts of the public and private sector.

Research Questions:

To what extent does the new financing strategies of the EU constitute a mission-oriented innovation policy approach for the transition towards a climate neutral society?

Background and statement of the problem

The challenge of sustainable development presents our society with the need for long-term structural changes. In order to resolve both, the environmental (such as climate change, the loss of biodiversity, deforestation and depletion of natural resources) and social challenge (inequalities in income, wealth and poverty and exclusion) structural transitions and a transformative agenda are necessary. It has been recognised that without the radical transformation of their economies, the Member States of the EU are unable to reach the goals they committed to. The long-term societal change towards sustainable development requires financial means for investment in the triple digit billion range annually. It is clear that such a grand challenge cannot be dealt with simply with market solutions, but rather demands a common transformative approach. Such change requires new efforts by both private and public actors, as well as centralised governance for the sustainability transition.

The **European Green Deal** (EGD), as the flagship project of the European Commission, presents an overarching and broad-reaching plan in different policy areas and promising structural change. The EGD is presented as the **new growth strategy** aiming at transforming the EU into an equitable and prosperous society, protecting the health and well-being of citizens from environment-related risks and impacts without net emissions of greenhouse gases by 2050, in addition to decoupling economic growth from resource use. The European sustainable investment plan will mobilise at least € 1 trillion of sustainable investment over the next 10 years to finance the EGD. It will establish a **framework to facilitate public and private investments** needed for the sustainable transition. In addition, the Commission presented the sustainable finance strategy aiming to marshal the necessary capital to deliver the objectives of the EGD by channeling private investment into the transition to a climate neutral, climate-resilient, resource-efficient and just economy, as a complement to public

money (European Commission 2019). It is necessary to state that even if the EU succeeds in allocating € 1 trillion over ten years to address the aforementioned challenges, there exists considerable uncertainty pertaining to estimated investment needs, and the € 1 trillion budgeted amount would represent merely a fraction of the additional investment requirement associated with the European Green Deal. Thus, the success of the EGD and ultimately the achievement of the sustainability and climate goals of the EU depend on the funding thereof.

Therefore, the investment gap can only be fulfilled with additional policies that go beyond the current policies under the EDG. Consequently, efforts need to be focused on **creating conditions** to allow all of the necessary economic actors to contribute to finance the transition to climate-neutrality and sustainability. It is clear that a triple digit investment gap cannot be met by the financial resources private sector alone, thus an increase in long-term public investment and respective **coordination of economic policies** at national level is required. An important component for economic policy coordination and dedicated fiscal policy is the **economic governance framework** of the EU. The current institutional and legal basis of the economic governance framework however is merely focused on monitoring budgetary measures in order to reach the Maastricht criteria. It has become subject of political debate whether or not the current setting effectively contributes to solving the grand societal challenges. This debate brings into question the **objectives and functions of economic governance and fiscal policy** and its underlying paradigm. In particular, the increasing need of sustainability governance also demands a corresponding financing framework, including coordinated fiscal policies directed towards achieving these societal objectives. In this way, creating a unified framework enabling public sustainable investment needed and economic policies for the sustainable transition. Such an approach suggests a strong role of the state or a public entity in directing the transition towards sustainability. A strong sustainability framework capable of meeting sustainability goals would require a centralized functionary, coordination on a large scale, synchronization of public and private actions and aligning the institutional, political and economic setting.

Significance of this research project

Against this background, the aim of this research project is to contribute to the academic and policy debate on financing the sustainability transition and its governance. Firstly, this research project explores the **policy innovation** of sustainable economic governance in the case of the EGD. It will provide analysis of the new perspectives and of the policy implications for the EU economic governance framework to steer the financing of the transition. It will bring together economic and public policy considerations geared towards sustainability governance at EU level.

From an academic perspective, the significance of this research project is to examine the development of the governance approach to steer the financing of the sustainability transition at EU level. In the literature of public and economic policy a new type of systemic intervention aiming at tackling mounting societal challenges has been referenced as the concept of '**mission-oriented innovation policy**'. It describes a package of policy and regulatory measures tailored to attain specific goals. Against this backdrop, **the central assumption** that will be analyzed in this project is that the EGD constitutes a mission-oriented innovation policy approach to finance the transition to climate neutrality and sustainability. Therefore, the **academic contribution** of this project consists in particular of examining the implementation of a mission-oriented innovation policy approach in the specific multi-level governance setting of the EU. Furthermore, it will discuss the underlying paradigm of economic theory of the applied governance approach.

Approach/Method

The characteristics of the governance approach, as a central concept of this research project, will be qualitatively analysed. In particular, the research project will conceptualise a mission-oriented policy approach for the sustainability transition. The current available toolkit and financial instruments under the EGD will be compared to financial tools before the setting up of the EGD. Against this background it will be assessed whether or not and to what extent the EU is following a mission-oriented innovation policy approach and in what way the EGD is changing the course in financing the sustainability transition. A qualitative content analysis on the discourse of mission-oriented innovation policies and meeting the investment needs will be conducted, based on documents and minutes from Commission expert groups, policy papers, consultation papers, and other available internal documents. The EGD will allow to investigate the most-likely case for a MOIP approach to emerge at the EU level. It is a compelling case of the evolution of the governance approach by the Commission to enable financing the sustainable transition. The data collection will derive content of Commission communications, Commission staff working documents, legislative proposals, announced initiatives, Commission dialogues with European Parliament and other stakeholders, documents from Commission expert groups, policy papers, consultation papers, relevant legislation, and other available internal documents from the Commission, the European Parliament and the Council etc.