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Towards a green and digital recovery

When the Covid-19 pandemic started more than one and a half years ago, I think few of us could have imagined the situation that we now find ourselves in. The pandemic has had an immense disruptive impact on our daily lives and on our European economies. But the pandemic has also established a sense of urgency to switch our economic path to a more sustainable one. It is now common to say that the pandemic has made digitalisation and the green transition more important than ever.

The Covid-19 recovery is an opportunity to drastically increase both climate investment and the adoption of digital technologies.

The European Union's recovery strategy aims to transform the economy by making it more green and digital. The recovery can also accelerate the pace of digital innovation and adoption, which will require not just digital infrastructure investment, but also the appropriate enabling conditions.

European firms are telling us that they expect the use of digital technologies to accelerate even further following Covid-19, but some are in a difficult position to achieve such a transformation, when we ask them about their investment needs.

According to our EIB Investment Survey where we asked more than 12 000 European firms, the adoption of digital technologies by firms in the European Union is improving, but it has not yet closed the gap with the United States.

By 2020, 37% of firms in the European Union had still not adopted any advanced digital technologies, compared with 27% in the United States.

There is also a risk of digital polarisation among European firms. Poor digital adoption by small businesses explains most of the observed lag between the European Union and the United States.

To achieve sustainable growth, Europe must embrace the potential of digital technologies. The digital revolution has already transformed industries, production processes and ways of living and working,

but many of these shifts are only just starting. As with previous technology waves, taking an early lead can be critical for lasting competitiveness.

With the global innovation and technology landscape changing rapidly and with the winner-takes-all tendencies of digital technologies, Europe risks becoming entrenched in its position as a follower on digitalisation.

Digitalisation is an opportunity, not a threat. Our data show that digital firms are more productive, employ more skilled workers and foresee more employment growth opportunities ahead.

By taking action to help European firms invest in the new technologies they need, we can spur growth and help close the divides that exist within Europe, strengthening our cohesion.

Addressing barriers to digitalisation is crucial. Exploiting the full potential of digital transformation requires skills and managerial capabilities. Our analysis shows a strong correlation between managerial practices and digitalisation.

Access to digital infrastructure is converging across Europe, but more needs to be done to accelerate the spread of fast connections. Although access to finance is not the major impediment to digitalisation, it can be a barrier for small firms.

Investments in digital infrastructure will be key to reducing digital polarisation. Digital infrastructure, which played a critical role during the Covid-19 pandemic, should be therefore high on the digital policy agenda. 16% of EU firms consider the available digital infrastructure as a major impediment to digitalisation, compared to only 5% in the United States.

But this assessment varies significantly across EU Member States. For example, firms operating in countries where a high share of municipalities report that they have high quality digital capacities and infrastructure tend to also have higher rates of digital adoption. This further highlights the importance

of digital infrastructure in supporting the digital transformation of businesses.

Climate change and environmental degradation present an existential threat to Europe and the world. Smart use of clean technologies can serve as a key enabler for climate action and environmental sustainability and accelerate the European Union's objective to become the first carbon-neutral continent by 2050.

For European firms, climate change poses two kinds of risks: direct physical risks and transition risks. Physical risks, such as those caused by acute weather events, are easier for firms to observe, understand and mitigate.

Transition risks aggregate corporate exposures to various risk factors, taking into account the adaptation and mitigation capacity of each country. For businesses, the repercussions go beyond profitability, as supply lines, demand and ultimately even business models could be at stake. These risks are less evident to address, as they depend on global commitments to reduce their economies' reliance on fossil fuels.

Firms have a harder time understanding the threat the transition poses to the demand for their products, their supply chains and their reputations.

Despite the costs associated with transition risks, the majority of firms in the European Union seem unaware of these risks. Firms that are aware of the risks the transition poses to their business activities are more likely to invest in climate measures to front-load the reduction of their carbon footprint.

Climate change's ultimate economic impact may still be hazy for many businesses, but more EU firms are investing to protect themselves than US firms. Around 45% of EU firms say that have invested in climate change measures, according to the EIB investment survey 2020, compared with 32% of US firms. Nearly half (47%) of EU firms surveyed say they have invested in energy efficiency, a ten percentage point rise compared to 2019.

Beyond finance, the corporate sector also requires critical advisory support to foster technology adoption and help improve management practices.

Our advisory services have provided substantial technical and financial expertise for projects in less developed regions with weaker institutional frameworks.

One example of this is the ELENA (European Local Energy Assistance) facility: managed by the EIB and funded by the European Commission, ELENA provides technical assistance grants to local and regional authorities for the preparation of energy efficiency and renewable energy investment programmes.

To build back better, we need proactive public and private investment. We need to create a virtuous circle, in which the private and public sector work together to invest in greening and digitalising the European economy.

In this context, the Recovery Fund could prove a formidable ally. The wealth of resources put in place are an invaluable opportunity to prepare our economic transformation.

To be at the frontier of the next waves of climate and digital innovation we need to ACT NOW!