

EU Financial Instruments as a Service for an efficient and strategic European Budget

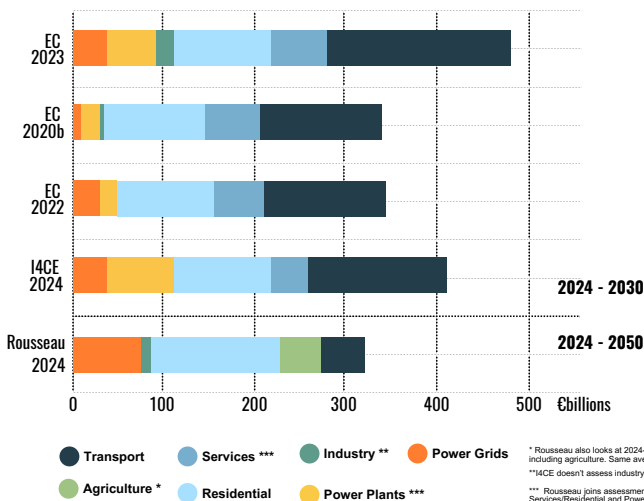


84% of the investments needs are concentrated in demand side sectors that require millions of small retail transactions



Financial efficiency requires **using the appropriate instrument** (grant, loan, equity, guarantee) to deliver its maximum impact (climate assets deployed, competitiveness and social gains) for the target beneficiary (households, SMEs and strategic sectors).

EU Annual Climate & Competitiveness Investment Gap (public & private) (€billions/year)

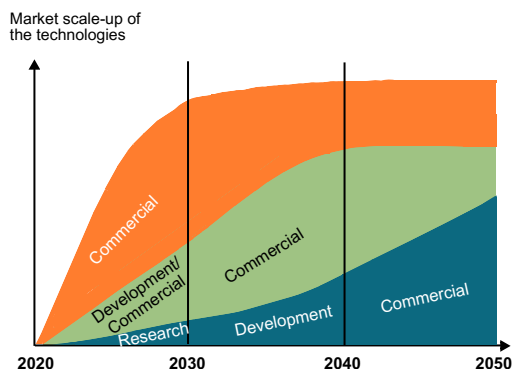


Around half (€340-477 billion) of the expected EU investment is hard to identify in existing budgets and using current trends.

While efficiency cannot address wealth disparity, and will not provide the additional hundreds of billions necessary annually to deliver Europe's climate and competitiveness priorities, it will **prevent waste, enable faster deployment of mature and strategic clean assets, and crowd-in greater amounts of private capital.**

Depending on the year, region and sector, 30-60% of climate investments will have to come from the public purse. This ranges **from 20% of public investment in transport, industry and energy, to 40% in buildings and 70% in agriculture.**

Addressing Inefficiencies in the EU Budget to lever Private Investments in Mature Clean Assets



"There is a funding gap not just with respect to amounts, but also with respect to the type of funding that is available."

Enrico Letta, 2024

Member States can now **activate compartments with EU-sourced funds** and take advantage of the **11.4x leverage** provided by the InvestEU budget guarantee to design **tailored financing schemes** for clean asset deployment.



7 Countries that have used the InvestEU Member States compartments

7% EU average of allocations to financial instruments in Cohesion funding in 2021-2027

3% Payments made under Cohesion funds at the end of 2023

The bulk of pre-2030 and 2040 climate investments are in mature commodity assets that come with revenues or savings that pay back private sector contributions in full, or in part. Europe has enough private capital to fill the climate investment gap and unlock competitiveness. According to Letta, due to the fragmentation of financial markets, the EU faces a "significant inefficiency" in the **infra-utilisation of the €33 trillion of European's private savings.**

Building on the InvestEU efficiency gains to design EU Financial Instruments as a Service (FlaaS) for Member States

HIGHER LEVERAGE

11.4x average (lower or higher depending on the risk associated to the asset)

EU-LEVEL HARMONISATION

Coordinated design and disbursement across the EU and for end-beneficiaries

LOCALLY TAILORED

Member State can propose size, scope of operations, and implementing partners - approved by Commission

ADMINISTRATIVE SIMPLICITY

Design and management of reporting and monitoring led by the Commission

STREAMLINED DELIVERY

Retail-level distribution through national financial partners

TO AVOID INEFFICIENCIES OF THE PAST AND ENSURE MEMBER STATE DEMAND

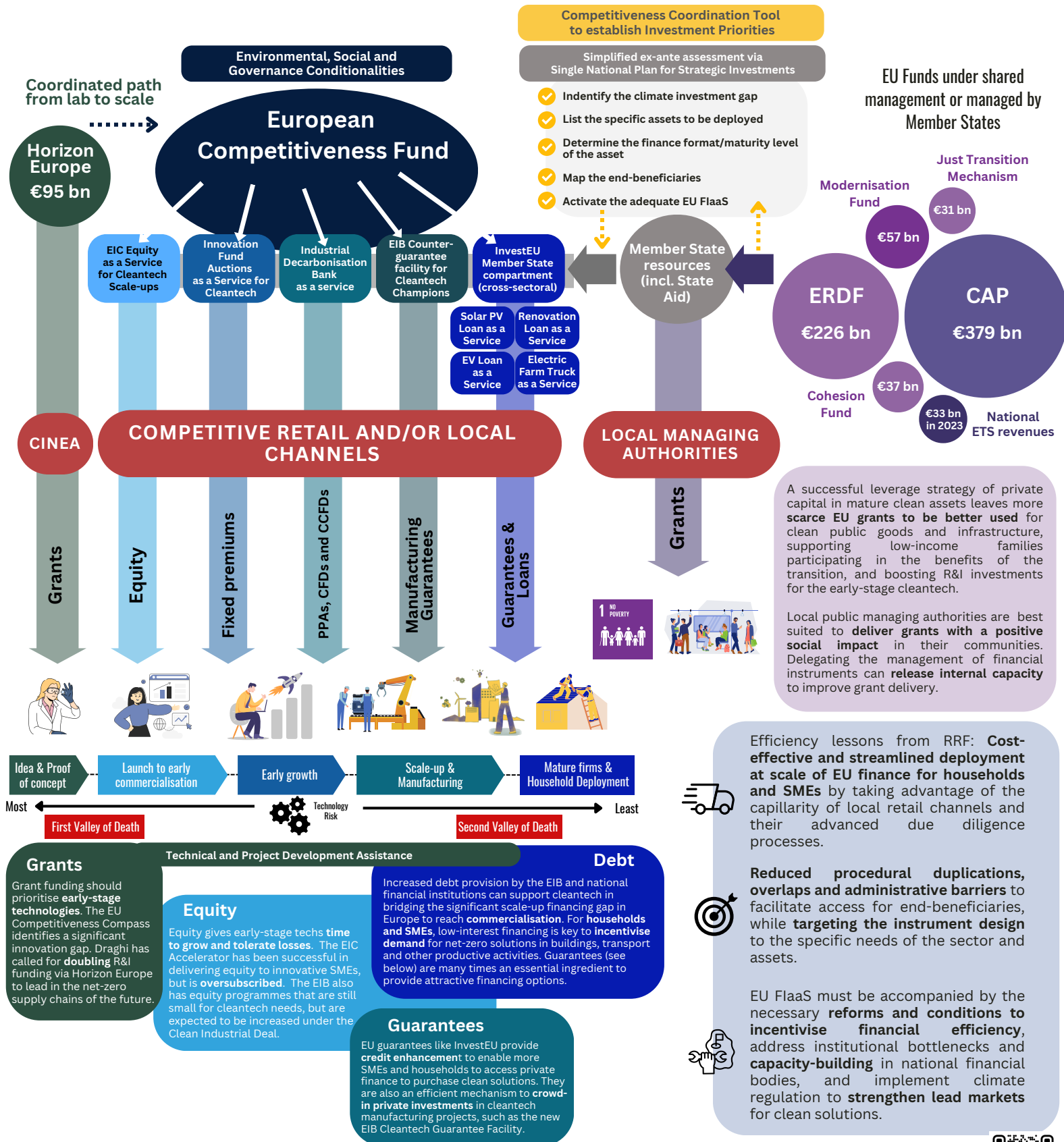
- Enabling **local empowerment** and local channels to enhance national control and visibility.
- Ensure **aligned timings** with national investment planning processes.
- Excluding the impact of contributions to the EU FlaaS from the **national debt calculus.**

DG REFORM can support Member States in activating EU FlaaS and implementing the necessary institutional reforms



Designing a European Competitiveness Fund to efficiently deliver targeted finance for decarbonisation

An EU Financial Instrument as a Service (FlaaS) is a template, off-the-shelf EU-level instrument designed to deliver an efficient blended finance structure tailored to fit a purpose and ring-fenced to a region or Member State. **EU FlaaS to de-risk investments in mature clean assets can be created at the EU level under the new Competitiveness Fund, and within the structure of existing successful EU programmes**, to deliver financial instruments for Member States enhanced by national contributions from EU shared management funds. The **Clean Industrial Deal** encourages Member States to make greater use of the InvestEU member state compartments and the Innovation Fund auctions-as-a service “**as a proven model to pool EU and national resources in a harmonised and State aid compatible competitive selection.**”



Governance and Reforms for an Efficiency First approach



More resources

via the new Competitiveness Fund to existing programs doing a demonstrably good job to fill the sectoral climate investment gaps



EU Financial Instruments as a Service

integrated in these programs for absorbing risk, crowding-in private investments, coordinating Member States' resources and simplifying funding governance



Avoid reinventing

which can cause administrative delays, overlaps, duplications of efforts and complexity for end-beneficiaries



Trial and consultation

in the current budget to test design features of EU FlaaS and gather feedback from national and local stakeholders

Greater Embeddedness between Public and Private Stakeholders to Deliver On-the-ground Benefits for End-beneficiaries

Filling technical capacity gaps at the local level

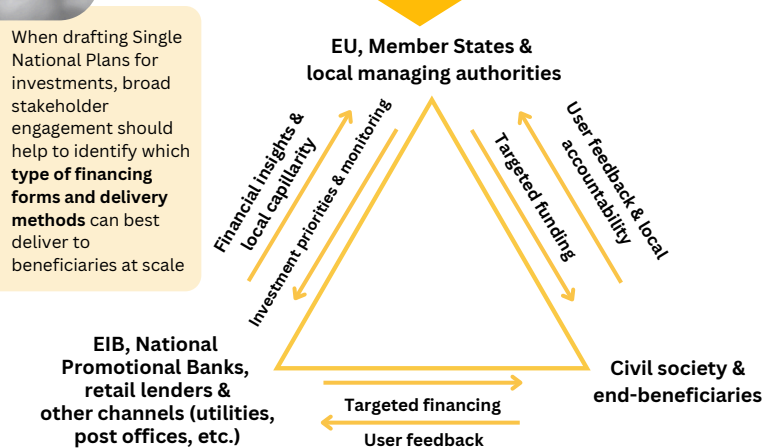
- ✓ Pre-designed financial instruments at the EU level delivered and supported by the EIB Group, national promotional banks and local retail channels can **enhance, grow and unify regional capital markets and banking networks**.
- ✓ EU FlaaS open an opportunity for lower income countries to **tap into the lower borrowing costs at the EU level and increase their investment capacity** in strategic regional projects.
- ✓ The simplicity and stability offered by leveraging EU funds through EU FlaaS can also **grow the clean project pipeline and climate innovation ecosystems** in all regions.

Designing a targeted financial toolbox & robust due diligence

To ensure an effective EU financial toolbox at delivering clean assets at the speed, scale and efficiency required, EU Financial Instruments as a Service need to be carefully and specifically designed for the target asset. This requires integrating **asset-specific default risk ratios and potential leverage factors**, which may vary depending on sector and technology/solution (e.g. lower risk for housing renovations vs. higher risk for innovative cleantech)

- ✓ A **permanent platform** should be established among **EIB Group, implementing partners and other national retail lenders and channels** to design targeted EU FlaaS, following the example of the Pan-European Investment platform for Affordable and Sustainable housing
- ✓ A **Strategic Dialogue on Cleantech** should kickstart under the mandate of the Clean Industrial Deal to contribute to a financial toolbox fit for the lab to scale journey of innovators

Bringing all players to the negotiation table



Building blocks for streamlined delivery to end-beneficiaries

Tailoring EU instruments to local financial ecosystems by integrating **proximity banks** and **sector-specific, specialised** retail channels in the design phase

Asset-based approach based on a positive list of clean projects to **simplify** the financing process for beneficiaries while ensuring a **transparent** reporting framework

Capacity-building of local retail channels to promote a **proactive** engagement, e.g. via **shared** data and due diligence collaborations or including **OpEx** funding

Integrating **strategic conditionality** in financial instruments to strengthen **additionality** of investments, and well-targeted, **just transition** outcomes

EU-level Governance Levers to Drive Strategic & Efficient National Investments in Clean Competitive Assets

COMPETITIVENESS COORDINATION TOOL

- Driving reforms for efficient investments that are outcome-focused for strategic results, aligning national resources with EU priorities
- Steering sector & asset-specific Single National Plans linked to NECPs

STATE AID REFORM

- Building a predictable and performance-based aid structure that prioritises efficiency & innovation by smaller companies
- A green golden rule in common public deficit regulations
- Simplified process for national compartments and addressing limits to local tailoring and integration of NPBs and local retail channels

STRATEGIC TECHNOLOGIES EUROPEAN PLATFORM AND ECF ONE-STOP-SHOP

- Mainstreaming climate earmarking and integrating strong conditions against inefficient and unpredictable flexibility
- Funding processes and conditions should target strategic, maximum impact of investments to facilitate access for well-defined classes of priority end-beneficiaries (SMEs and small, young innovators)



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Filling the EU Climate Investment Gap more efficiently



Prepared by



Download report here

Published in late 2024, this report provides a set of recommendations and principles to integrate an “efficiency-first” approach in the EU budget to lever the necessary private investments to fill the European climate & competitiveness investment gap.

About Climate Strategy & Partners

Climate Strategy & Partners is a leading advisory and consulting firm in the areas of climate finance, innovation, and energy efficiency investments, with a focus on the corporate strategies and government policies required to effectively accelerate the transition to a net-zero emissions economy. For 15 years, the Climate Strategy team has been providing global companies, banks and Governments advice on how to deliver the economic transition to a low carbon economy. Climate Strategy's chief executive, Peter Sweatman, has authored or co-authored 25+ white papers, given over 500 climate talks and was the rapporteur to the EU Commission and UN Environment Finance Initiative's Energy Efficiency Financial Institutions Group (EEFIG), leading a decade of ground-breaking work from 2013-23. Climate Strategy supported energy transition policy development at the G20 and in Spain, Mexico, France, and the UK. From 2016-2022, Climate Strategy's subsidiary Energy Efficiency Capital Advisors (EECA) structured and supported energy efficiency private placements totalling over €50 million for Spanish cities, companies and buildings for international investors.


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