



Filling the EU Climate Investment Gap more efficiently

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Executive Summary

“The next Multiannual Financial Framework (MFF) 2028-34 can become the budgetary instrument of a reform decade. The need for a comprehensive modernisation of the European Union is undisputed by most stakeholders. Europe needs to become more competitive, more sustainable and more sovereign.”

Policy Department for Budgetary Affairs of the European Parliament

How Europe invests in the coming years will determine the nature of the Union, its security, sustainability and competitiveness. **The EU faces an additional annual climate investment need of €340-477 billion.** This investment must deploy enough clean assets for the timely energy transition of its highest-emitting sectors (buildings, transport, energy, industry and agriculture) by 2050. **The gap is also one of industrial competitiveness,** as European cleantech firms face global pressure from continued investment plans put forward by other countries like the US and China. Depending on the year, region and sector, **30-60% of these investments will have to come from the public purse.**

The next EU budget will determine how Europe capitalises on its “first mover” policy advantage and builds the strategic net-zero value chains to deliver a just climate transition. A new Clean Industrial Deal can reinforce industrial competitiveness and decarbonisation as two sides of the same coin, as proposed by Mario Draghi. A new European Competitiveness Fund can also catalyse the necessary investment capacities in strategic cleantech value-chains. Three mutually reinforcing strategies are needed to fill the EU climate investment gap: 1) Increasing Climate Investments in National Budgets, 2) More EU Money for Climate Investments, and EU Competitiveness, and 3) Improved design-efficiency in the Delivery of the EU budget. This report focuses on the latter by **providing 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 climate investment gap.**

Many of the clean technologies needed over the next 10 years (e.g. solar panels, EV chargers, insulation, heat pumps and wind turbines) are mature and produce savings and returns to private investors. This makes them ideal for an increased use of financial instruments for corporations and homeowners. The report takes a granular look at:



- a) the most salient sectoral investment gaps in the deployment of specific clean assets
- b) the EU funds targeting these assets
- c) the mix of instruments used to deliver these key funds
- d) the type of end-beneficiaries with eventual control of the funded asset.

The analysis shows that **significant inefficiencies exist in the disbursement by Member States of the largest EU funds due often to a preference of grants over EU financial instruments.** Further research suggests that higher-income households and larger companies may benefit more than is necessary, raising concerns about the additionality of that public funding. The leverage impacts of the EU budget on private finance can be improved, and precious grant money for supporting the climate transition can be better used.



In an already constrained EU budget, grant-based schemes have to focus on delivering an “EU added value” and a just transition by: 1) decarbonising public goods and services, 2) supporting low-income, energy poor households across the EU, and 3) strengthening early-stage technologies to sustain Europe’s future leadership in net zero value chains. Yet, **to finance mature clean assets, this report recommends boosting EU Financial Instruments as a Service (FaaS) for Member States.** EU FaaS have been tried and tested in specific sectors and this report documents successful country experiences in case studies from InvestEU, the Innovation Fund, and RRF financing for the SME climate transition. **An EU FaaS is a template for a financial instrument that is specifically designed to deliver an efficient blended finance structure tailored to a specific clean asset, for the decarbonisation of a specific sector.** These FaaS can be taken off the shelf at the EU level, within the structure of a specific EU managed fund (e.g. InvestEU, the Innovation Fund, the EIC), to deliver for Member States in a ring fenced manner: They can be enhanced by national contributions from shared management funds (e.g. Cohesion Policy, Modernisation Fund, Common Agricultural Policy), and deployed through local channels.

The advantages of EU FaaS include the **simplification of administrative procedures for Member States, such as State Aid clearance, while being locally-adapted** to each country’s national conditions; the **acceleration of fund disbursement** by using the networks and resources of competitive retail channels with reach to millions of SMEs and households; and the possibility of **enhancing the strategic impact of funds** with sector-specific, asset-tied financing schemes. Their EU-level design can **harmonise instrument deployment and application across the EU, addressing the current “patchwork” of funding sources** identified by the EIB, ECA and others that is complicating the delivery to end-beneficiaries.

In integrating an “efficiency first” approach in the EU budget, there is no need to reinvent the wheel. The operationalisation of an efficient EU budget can be based on best practices from existing EU instruments, such as InvestEU and the Innovation Fund, and EU FaaS should be actively tested in the current programming period. **This report proposes a set of sector and asset-specific funding strategies based on the type of asset deployments and end-beneficiaries to determine when EU FaaS should be considered and where grants can be prioritised.** Sectoral analysis points at potential avenues for integrating asset-specific EU FaaS in existing EU instruments, such as a) expanding the policy windows under InvestEU to Sustainable Housing, to Sustainable Transport, and to Sustainable Agriculture, all activated by the MS compartment, b) expanding “as a service” auctions and other innovative instruments to specific cleantech products under the Innovation Fund, c) including FaaS for cleantech scale-up in the EIC.

The SME and industrial competitiveness question is also explored in detail to showcase how **EU FaaS could more effectively channel funds to SME decarbonisation and accelerate the historically slow absorption rates of some of the largest EU funds.** The next MFF is a clear opportunity to review and reinforce existing EU financial instruments that are working well for SMEs and cleantech with a more proactive and “risk-taking” approach from the EIB. **This report also offers recommendations to enable the EIB Group to better deliver its Climate Bank mandate and bridge the cleantech scale-up finance gap with more internal resources and an increased size and efficiency of its cleantech programs.**

Ensuring an effective uptake of EU FaaS by Member States requires improved national assessments of the climate investment gaps and strategic planning to identify opportunities for financial instruments. **Additional national reforms may also be needed to enable an institutional framework that strengthens the role of national promotional banks and other retail channels in the transition, which are key to reach to SMEs and households.** Member States must also focus on implementing the regulatory changes introduced under the Fit for 55 regulatory package, which will **accelerate market growth for cleantech** and thereby reduce the need for additional financial support for the industrial transition on the supply side. **These policy levers to increase investment efficiency can be incentivised by a shift to a “reforms for investments” model of EU shared management funds.**

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