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Filling the EU Climate Investment Gap more efficiently



Prepared by

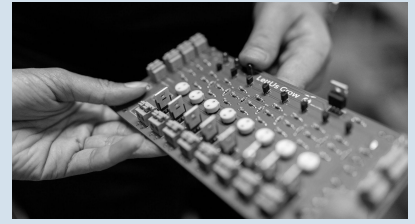


About the Report

The report has been prepared by **Climate Strategy & Partners** coauthors:

Peter Sweatman, Founder and Chief Executive

Adriana Rodríguez, EU Climate and Public Finance Analyst



The coauthors of the report have been assisted by Climate Strategy & Partners' **Alejandro Bravo** (Research Assistant) for case studies and research and by **Mauricio Yrivarren** (Senior Research Associate) for the report's graphic design and review.



This report sets out to develop an **efficiency-first approach to structuring the next EU budget** to help to part-fill the climate investment gap, boost the EU's green industrial competitiveness, and ensure there are sufficient public funds for those who need them. The approaches proposed here can also be trialled during the last years of the current MFF and can be implemented after the mid-term reviews. **The analysis builds upon a review of the existing instruments of the current programming period (2021-27) for relevant climate investments in mature technologies and solutions.**

Recognising the significant investment gap in climate R&I, and the need for increased grant-based public funding to develop early-stage, clean technologies, much of the climate investments needed to meet the EU 2030 targets, and reduce emissions by 90% by 2040, is in technologies which are market-ready. **Efficiency as a principle can only work for technologies that generate some revenues, or savings.** Therefore, this report focuses on the efficient use of EU funds for deploying mature clean technologies and solutions, without prejudice to the critical importance of doubling European R&I funding, via a successor to Horizon Europe.

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 investment gap.

This report has been subject to the review and comments of the following experts:

- Christopher Schröder (Agora Energiewende)
- Michaela Holl (Agora Energiewende)
- Anelia Stefanova, Bankwatch (CEE Bankwatch Network)
- Christophe Jost (CEE Bankwatch Network)
- Jules Besnainou (Cleantech for Europe)
- Olivier Vardakoulias (Climate Action Network Europe)
- Pietro Cesaro (E3G)
- Alba Berhami Sintomer (E3G)
- Marlène Siméon (Future Cleantech Architects)
- Zita Herman (Greens/EFA in the European Parliament)
- Pierre-Marie Aubert (Institut du Développement Durable et des Relations Internationales)
- Ciarán Humphreys (Institute for Climate Economics)
- Clara Calipel (Institute for Climate Economics)
- Andreas Eisl (Jacques Delors Institute)
- Eulalia Rubio (Jacques Delors Institute)
- Sebastian Mang (New Economics Foundation)
- Chris Vrettos (REScoop.eu)
- Greg Arrowsmith (The Association of European Renewable Energy Research Centers)
- Till Eichler (Transport & Environment)
- Xavier Sol (Transport & Environment)

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Summary

Download report here:



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 and sector, **30-60% of these investments will have to come from the public purse.**

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:

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- 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 to often a preference of grants over EU financial instruments.** In an already constrained EU budget, grant-based schemes have to focus on delivering an “EU added value” and a just transition by:

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1. Decarbonising public goods and services
 2. Supporting low-income, energy poor households across the EU
 3. Strengthening early-stage technologies to sustain Europe’s future leadership in net zero value chains

An EU FlaaS 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.

Yet, to finance mature clean assets, this report recommends **boosting EU Financial Instruments as a Service (FlaaS) for Member States.** These FlaaS can be taken off the shelf at the EU level, within the structure of a specific EU managed fund, to deliver for Member States in a ring fenced manner: They can be enhanced by national contributions from shared management funds, and deployed through local channels.

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 FlaaS 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 FlaaS should be considered and where grants can be prioritised.** Sectoral analysis points at potential avenues for integrating asset-specific EU FlaaS in existing EU instruments, such as:

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- 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 FlaaS for cleantech scale-up in the EIC



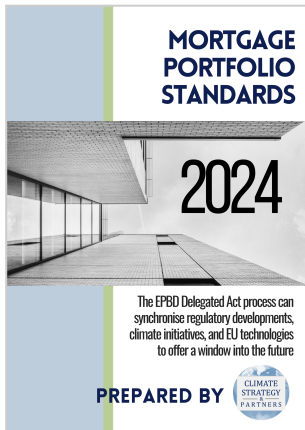
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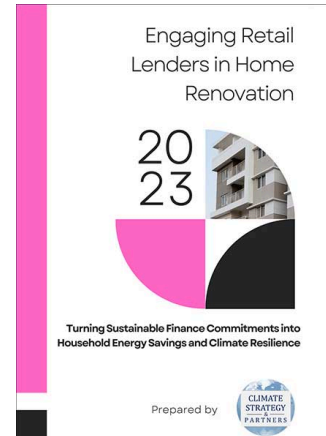
Climate Strategy briefs the European Commission

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.

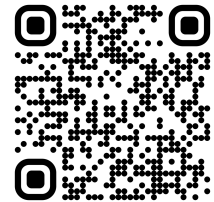
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CONTACT US

CLIMATE STRATEGY SL
Paseo de Recoletos, 5
28004 Madrid SPAIN

info@climatestrategy.es

PHONE NUMBER:

Tel local: +34 91 576 4837
Tel UK: +44 (0) 20 7193 4807

