The impact of EU level financial instruments on climate policy in EU member states: case study of European Structural and Investment Funds (ESIF)

Lessons Learnt: financing climate actions from EU structural funds and recommendations for emerging economies

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Between 2007 and 2020 EU has allocated EUR 168 billion from European Infrastructure and Structural Funds (ESIF) for climate-related actions in member states.

What lessons can we learn from this experience?
SUCCESS FACTORS

1. **Sufficient negotiation period and flexibility** to define implementation arrangements & negotiate targets and programming priorities – Partnership Agreement (legally-binding document)

2. EU-wide climate compact helps raise ambitions of individual MS, but alignment with **socio-economic development** priorities is even more important

3. Focus on **low-hanging fruits**, proven solutions & business models ready scale-up: **energy efficiency** in buildings and SMEs

4. **Long-term planning horizon** (7 years versus 1 year under regular budget exercise)

5. **Leadership** from Prime-Minister office level to facilitate consensus building and ensure inter-ministerial coordination
CONSTRANTS

- EU regulations (e.g. State Aid, public procurement) restrict innovation in climate programming, e.g. with non-grant Financial Instruments;
  - Grant and non-grant projects are not the same

- Lack of effective delivery mechanisms/implementing structures
  - EE in multi-family residential buildings

- Market absorption capacity and private sectors’ reluctance to engage:
  - Scale matters for financial sector and suppliers
  - Complexity and bureaucracy associated with public funding also does matter
FINANCIAL INSTRUMENTS (FIs)

FIs take the form of loans, guarantees, equity capital or venture capital.

Investment Plan for Europe encourages use of financial instruments instead of traditional grants in ESIF funding (still at 3-5% of total funding).

Ex-ante assessment shall establish evidence of market failures, determine the size of the investment gap (viability gaps or financing gaps) and propose specific financial instruments.

FI design must comply with EU State Aide regulations to determine eligible projects, maximum amount of financing per beneficiary, the terms of financing, and the governance structure.

FI intervention should be limited to the minimum required to achieve the desired objective.
Lessons Learnt from FI design for energy efficiency

- Quality ex-ante assessment: know your market conditions and beneficiaries
- Understand your regulatory constraints: State Aid, procurement
- FI’s do not “fly” if there is a similar subsidy instruments or they are considered or have recently been implemented
- Ideally, should go hand in hand with market-oriented energy tariff reform
- Standardize and simplify process as much as possible, in particular for public procurement
- Provide comprehensive TA package to promote FI, support project preparation and implementation: combine TA and FI under one funding framework
- Non-climate benefits are important (inclusive growth, jobs, energy poverty)
DISCUSSION

▶ Which lessons / factors from the EU experience discussed today do you find most relevant and important for future climate programming?

▶ Where do you face the biggest challenges in design and implementation of climate finance programmes, where EU experience may help?
  ▶ Theory of change
  ▶ M&E
  ▶ Gender mainstreaming